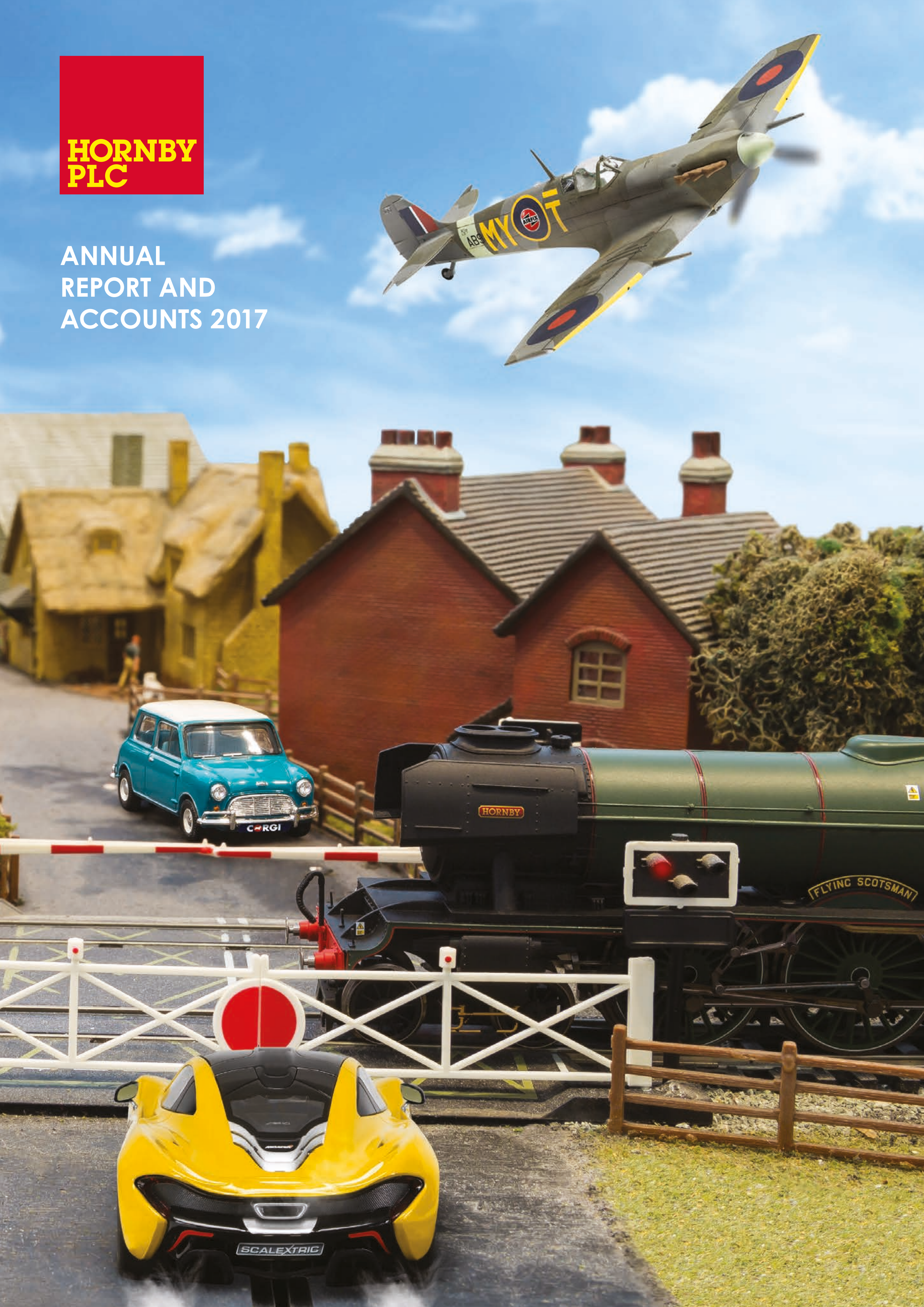
HORNBY PLC

ANNUAL REPORT AND ACCOUNTS 2017



Hornby PLC

The Group's principal business is the development, production and supply of toy and hobby products for a global market, through a series of heritage brands. The Group distributes its products through a network of hobby specialists, multiple retailers and through its own website in the UK and overseas.

Highlights 2017

"I am pleased with the progress we have made over the past year to deliver on the Turnaround Plan, the first stage of which has now been completed.

We have delivered on the commitments we made a year ago and have made the necessary structural changes to the business. Having returned the Group to a sound financial footing, we are now in a position to focus on the next stage of the Turnaround Plan, which will see Hornby progress back to profitability and positive cash generation."

Steve Cooke, Chief Executive

Revenue
(2016: £55.8m)

£47.4m

Operating loss
(2016: £(13.1)m loss)

£(9.2)m

Reported loss before taxation
(2016: £(13.5)m loss)

£(9.5)m

Underlying[1] loss before taxation
(2016: £(5.7)m loss)

£(6.3)m

Reported loss after taxation
(2016: £(13.7)m loss)

£(9.7)m

Reported loss per share
(2016: (27.87)p loss)

(12.65)p

Underlying basic loss per share
(2016: (13.02)p basic earnings)

(9.26)p

Net cash
(2016: £7.2m net debt)

£1.5m

1 Underlying figures are before amortisation of intangibles (brand names and customer lists) and net unrealised foreign exchange movements on intercompany loans and exceptional items.

At a Glance

The Group operates across five product categories in the toy and hobby market for scale models. Our products are distributed through the following channels: UK Independent specialists, UK National retailers, our European businesses in Spain, France, Germany and Italy, via export with our international distributors and through Hornby Inc. in the USA. Other channels include Hornby's internet and retail operations.

Model rail

Revenue

£22m

Key channels

UK Independents	38%	Europe	29%
UK Nationals	7%	Other	19%
Export	7%		

High-quality scale locomotives, coaches and wagons for the model rail enthusiast. Hornby is the main UK model rail brand, with Hornby Railroad as an affordable entry level range. Hornby Skaledale is a range of 1:76 scale buildings. Hornby train sets also provide the perfect introduction to the world of model railways.

International model rail brands produce locomotives, coaches, wagons and accessories and include the Rivarossi, Jouef and Electrotren brands in HO scale and Arnold in N scale.

HORNBY ARNOLD Rivarossi Electrotren Jouef

Slot car

Revenue

£12m

Scalextric is the classic model slot car racing system. The range includes 1:32 scale cars as well as 1:64 scale Micro-Scalextric for the younger enthusiast. The Sets are supported by a range of accessories allowing the layout to be expanded and the racing experience is enhanced through App Race Control (ARC), which uses a mobile app to simulate real racing conditions. A range of solo cars allows the enthusiast to collect their favourite slot car models.

Key channels

UK Independents	11%	Europe	5%
UK Nationals	39%	USA	14%
Export	14%	Other	17%

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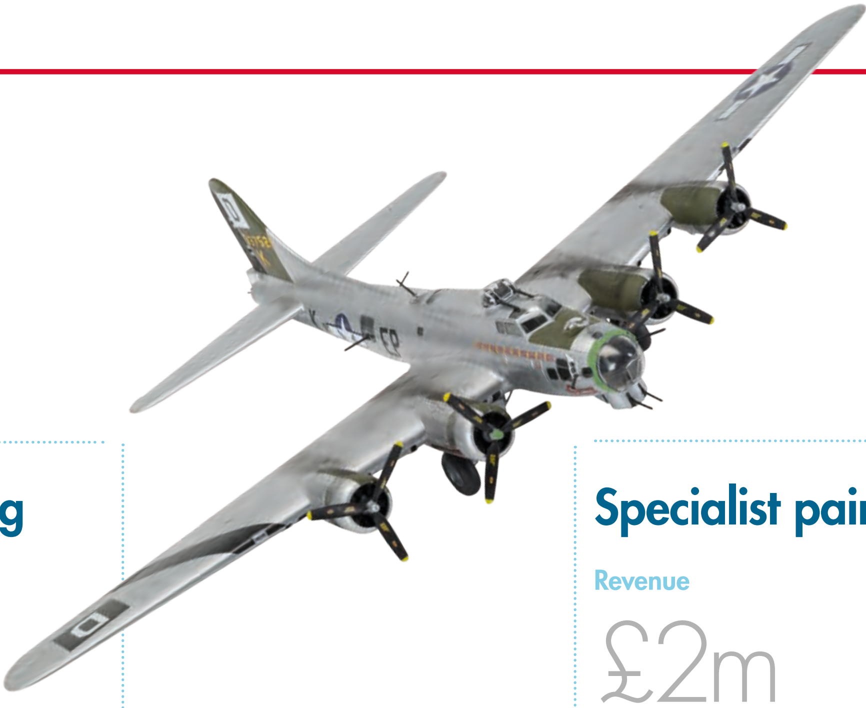


Plastic modelling

Revenue

£6m

Injection plastic moulded kits in various scales from 1:24 to 1:72. The Airfix range includes models of varying levels of difficulty, from starter kits for those new to the hobby to classic kits for the more experienced modeller. Gift Sets make the perfect present. Airfix Quickbuild are scale models made from moulded, lock-together blocks.

Key channels

UK Independents	21%	Europe	9%
UK Nationals	23%	USA	11%
Export	22%	Other	14%

Collectable models

Revenue

£4m

Corgi produce die-cast scale model vehicles including 1:43 scale cars in the Vanguard range, 1:72 scale military aircraft in the Aviation Archive range, a range of 1:50 scale 'Hauliers of Renown' as well as famous cars from TV and film.

Key channels

UK Independents	38%	Premiums	10%
UK Nationals	9%	USA	7%
Export	7%	Other	29%

Specialist paints

Revenue

£2m

Strongly associated with model-making, the Humbrol range encompasses enamel and acrylic paints as well as thinners, solvents, weathering products and accessories to provide the modeller with everything they need to complete a model.

Key channels

UK Independents	36%	Export	27%
UK Nationals	18%	Other	19%

Product Journey

01. Research

The product journey starts at least two years in advance of a product being released. Our researchers gather customer and consumer feedback on products and they also review competitor releases to identify gaps in the product range. They use their depth of knowledge, intuition and trends in the market to develop a balanced, highly-desirable proposed range covering different eras, subject matters and items of interest.

02. Selection

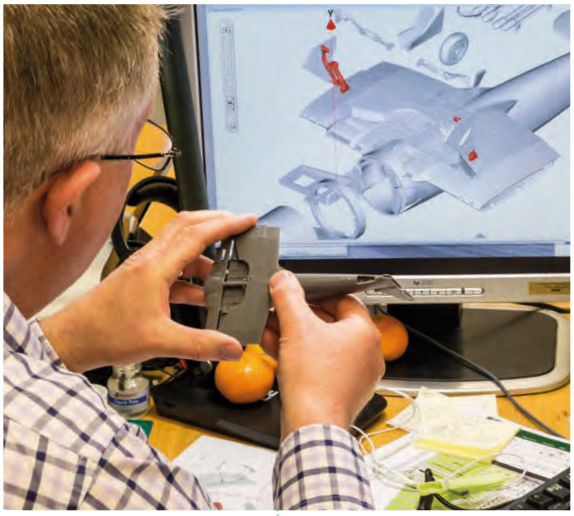
Product ideas are then filtered to assess their feasibility, which may be influenced by the availability of design and source information and whether a product licence is required and available. A financial assessment is then undertaken to evaluate the investment in new tooling, which will be underpinned by sales forecasts based on historic knowledge and experience.

06. Consumer

We engage with our consumers through the major hobby shows held throughout the year. This is an important and key time to receive feedback from our consumers on new products and the service Hornby provides. Our social media team also provide insight into new product developments via our blogs; The Engine Shed, Test Track, Aerodrome and Die-Cast Diaries. We also work closely with the key hobby magazines, providing test products and development insights to help consumers keep abreast of new and exciting developments.

We also have dedicated brand websites, which as well as listing the product ranges they list a significant amount of help and advice in the form of manuals, services sheets and guidance on spares and servicing. The website resource is supported by the Customer Service team, who are available to provide advice by phone and email.

Finally, the Hornby Visitor Centre in Margate displays the rich history of the Company and its brands, and is a fun day out for all the family with large train layouts and a chance to experience the fun of Scalextric.

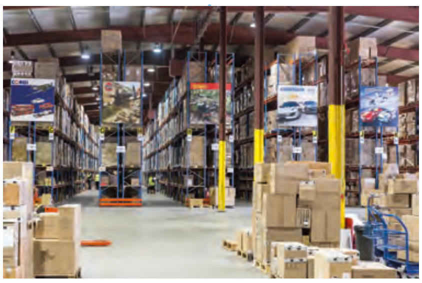


03. **Design**

Once selected, the new product will be designed using our in-house CAD capabilities. The CAD drawings are developed from manufacturers' original drawings or from a laser scan and survey. This allows a detailed and accurate CAD design to be developed. Product variants of models are developed, which help to maximise the return on new tooling investment.

04. **Manufacture**

Once the design is finalised, the product is produced by our network of specialist vendors in China, India and the UK. The tooling to produce the models is developed from the CAD drawings. Once the tooling is manufactured, pre-production samples are produced in small volumes to test the accuracy of the tooling and to check the fit and function of the components. Following pre-production, a fully decorated sample is produced, which is used for licensor approval if relevant and is then used to ensure the production meets the required standard. Our quality control team will then inspect products at source on the production line to ensure they are to the requisite quality.



05. **Distribution**

Once completed, the product is shipped to the UK, spending around six weeks in transit, before being held at the Group's outsourced warehouse in Hersden, Kent. Some products are delivered direct to the customer from Hong Kong. The finished products are distributed via a network of Independent retailers, by National and International customers as well as direct to consumers through the Hornby internet. A team of sales executives support our customers with regular meetings and visits.

Strategy

In June 2016 we outlined the Turnaround Plan with the stated aim of returning the business to sustainable profit and positive cash generation. We are pleased with the progress made over the past year with improving the focus on our customers and consumers, with the organisational changes made and with the actions to strengthen the balance sheet.

Strategic priority	2016–2018 Turnaround plan
Customer focus	• Focused product ranges • Maintain key brands • Refine channel strategy and exit concessions
Organisational change	• Reduce business scale and cost • Streamline European operating model • Establish leadership team
Strengthen balance sheet	• Careful management of stock • Realise property assets

2016–2017
Progress

- Product lines reduced to c.1,400 (from 2,400 in 2015)
- Brands supported by £1.8 million of capital investment in new tooling
- Concessions substantially exited
- Improved relationships with UK Independent and National retailers

- Reduce business scale and cost
- European operations and product development centralised in the UK

- Stock reduced to £9.7 million at 31 March 2017 (2016: £13.6 million)
- Spanish and Margate properties sold realising £3.3 million in cash
- Group delivered in line with Plan and Board's expectations for 2016–17

2016–2018
Priorities

- Building on the strong profitability of the Hornby and Airfix brands
- Improving Scalextric performance
- Growing our European and US businesses
- Further improving our customer service
- Maximise the return from our brands through selective licensing agreements

- Deliver further efficiencies from ongoing cost reduction

- Continued careful management of stock and working capital

Chairman's Statement

The Strategic Report comprises the Chairman's Statement, the Chief Executive's Report, the Operating and Financial Review of the Year and Our Key Performance Indicators ('KPIs').

Delivering the Turnaround Plan

The last 12 months was a period of significant change for Hornby. Following the trading challenges of 2015–16, we embarked upon a two-year Turnaround Plan to transform the business, supported by our shareholders through £8 million of new equity and by our bankers with a £10 million refinancing of the bank facilities in July 2016. The objective of the Turnaround Plan is to return the Group to a position of operational cash generation for the 2017–18 financial year. 2016–17 was expected to be a year of transition, executing the main elements of structural change envisaged by the Turnaround Plan.

I am pleased with the considerable progress made against the Plan over the past year and, as such, we believe that we have completed the first stage. We have returned the business to a sound financial footing and have laid the foundations for the business to progress to profitability and positive cash generation on a sustainable basis.

Getting closer to our customers and consumers

We have established stronger relationships with our customers and consumers. We have resumed attendance at consumer shows to raise the profile of our brands whilst getting closer to consumers to receive their feedback on our progress. We have engaged more closely with our network of Independent customers, which is essential to the success of the business, including roadshows launching our product range for 2017. We have also begun to increase the quantity and quality of interaction with our National multiple retailers.

- Revenue of £47.4 million (2016: £55.8 million)
- Underlying loss before taxation[1] of £6.3 million (2016: £5.7 million loss)
- Reported loss before tax of £9.5 million (2016: £13.5 million loss)
- Reported loss after tax of £9.7 million (2016: £13.7 million loss)
- Exceptional items of £3.3 million (2016: £7.9 million), including costs relating to the restructuring of the business, refinancing and a profit on the sale of the Margate and Spanish properties
- Net cash at 31 March 2017: £1.5 million (2016: £7.2 million net debt)

1 Stated before amortisation of intangibles (brand names and customer lists) and net unrealised foreign exchange movements on intercompany loans and exceptional items. See Operating and Financial Review on page 15 for details.

Financial stability
Strengthening the Group's financial position was a key strategic priority of the Turnaround Plan. Good progress has been achieved through the sale of properties in Spain and Margate, which raised £3.3 million. Stock management was critical and we have achieved a year-on-year reduction of £4.0 million to £9.7 million.

People
I would like to take the opportunity to thank our employees for their hard work and commitment during a difficult time for the business. They have continued to develop and deliver great products for our customers and consumers during a period of significant change.

Board changes
On 17 October 2016, we announced that David Mulligan had been appointed Group Finance Director on a permanent basis.

On 22 December 2016, we announced that Martin George was appointed as a Non-Executive Director. Martin has extensive experience in marketing and commercial roles. He was recently Chief Commercial Officer of The Post Office Limited, as well as Chairman of Grays International Limited. He was previously Non-Executive Director at Thorntons plc, Group Development Director and Group Marketing Director at BUPA and Commercial Director at British Airways.

Charlie Caminada stepped down from the Board on 22 December 2016. Charlie was on the Board for three years, during which time he helped to steer the business through a period of major change, including two successful refinancings. Charlie also acted as Interim Executive Sales Director for six months earlier this year. I would like to thank Charlie once again for the significant contribution he has made to Hornby.

Shareholder engagement
We will hold our AGM in September 2017, providing shareholders with an excellent opportunity to hear more about our progress with the Turnaround Plan.

With the first stage of our Turnaround Plan complete, the Board is now focusing on the delivery of the second stage in 2017–18, further details of which are detailed in the Chief Executive's Report. As a Board, we are confident that we have established a firm platform for growing shareholder value and returning Hornby to a more stable and sustainable trading performance.

On behalf of the Board

Roger Canham
Executive Chairman
21 June 2017

Chief Executive's Report

2016–17 was a year of transition for the Hornby Group. In June 2016, we set out the Turnaround Plan with the stated aim of returning the business to sustainable profit and positive cash generation over a two-year period. I am pleased with the progress we have made over the past year in delivering the changes that we committed to as part of the Plan.

To recap, the key elements of the first phase of the Turnaround Plan were as follows:

- Reduce business scale and costs
- Maintain key UK brands
- Streamline European operating model and brands
- Focused product ranges
- Refine sales channels strategy and substantially exit concessions
- Careful management of stock down to an appropriate level

In addition, we have put significant effort into improving our relationships with our customers and consumers. Now the first stage of the Turnaround Plan is completed, the focus for the current year turns to moving the business to sustainable profit and cash generation by:

- Building on the strong profitability of the Hornby, Airfix and Humbrol brands
- Improving Scalextric's performance
- Growing our European and US businesses
- Further improving our customer service
- Delivering further efficiencies from ongoing cost reduction
- Maximising the return from our brands through selective licensing agreements

The financial performance for last year was in line with the Board's expectations and those of the Turnaround Plan. Revenue of £47.4 million (2016: £55.8 million) reduced by 15%. However, this was expected as we rationalised the business. The operating loss before exceptionals of £5.9 million (2016: £5.3 million loss) reflected the transition and significant organisational changes delivered over the past year.

Net cash at 31 March 2017 was £1.5 million (2016: net debt of £7.2 million). This reflects the steps we have taken to strengthen the financial position of the Group by raising £8.0 million additional equity (£7.5 million net proceeds), reducing stock levels to a more normal level (£4.0 million cash inflow), the sale of the Margate and Spanish properties (raised £3.3 million) and other improvements to working capital (excluding stock) of £2.5 million. These cash inflows have been offset by the cash impact of underlying operating losses and exceptional items incurred during the year.

First stage of Turnaround Plan completed

The first stage of Hornby's turnaround is now completed and the results of this series of initiatives are in line with the Board's plan and expectations. The Group has restructured its UK and European operations, resulting in structural improvements to the cost base of around £4 million, and has re-engaged with its core independent retailer base as part of a repositioned sales channel strategy. The product range has been rationalised and refocused, which has allowed Hornby to reduce capital expenditure and improve working capital.

Reduce business scale and costs

Our aim was to reduce activity levels in order to secure a return to profitability by focusing on the most profitable and cash-generative product lines and activities. We have made significant structural changes to the UK and European businesses over the past year, resulting in the planned reduction in the scale of the business.

Maintain key UK brands

Brand strength is at the heart of Hornby and our plan for the Group. As a result, we have retained our iconic UK brands (Hornby, Scalextric, Airfix, Humbrol and Corgi) by continuing to invest and develop new product lines. This was supported by around £2.0 million of capital investment this financial year (2016: £4.6 million) into new product tooling (£1.7 million) and enhancing our operational IT systems (£0.2 million).

Central to the strength of our brands was an increased focus on improving customer service to Hornby's core hobby customers through the Independent sales channel. We spent considerable time visiting and listening to our customers. We believe that we have gone some way to addressing their concerns and we have committed to improving the relationships we have with them. As part of this commitment Hornby reduced the level of promotional activity direct to consumers via the internet and its own retail operations, with the aim of helping our independent retailers improve their businesses.

Streamlined European operating model and brands

The European business is focusing on its most profitable International model rail brands and this resulted in full-year revenue from our international operations falling by £3.9 million, or 39% over the course of this financial year, in line with our plans as we transferred management functions to the UK. The process to centralise the European operations and product development in the UK was completed as planned.

Chief Executive's Report continued

Focused product range
The number of individual product lines was reduced by approximately 40% during 2016–17, resulting in the active management of approximately 1,400 profitable product lines in the 2017–18 financial year. We remain on track to deliver this streamlined product range over the coming year.

Refine channel strategy and exit concessions
We have exited from most of the Group's concession arrangements because of the poor historical returns from trading through this channel.

Careful management of stock
We reduced the level of stock progressively over the course of 2016–17 whilst being very careful to avoid disruption to underlying sales through existing channels. Stock at March 2017 was £9.7 million (2016: £13.6 million), with the reduction resulting from addressing historical stock issues and the exit from concessions.

Other developments
As well as delivering the Turnaround Plan, we have made progress across several important areas of the business over the last year.

Impact of exchange rates
The Group purchases goods in US Dollars and sells in Pounds Sterling, Euros and US Dollars and is therefore exposed to exchange rate fluctuations. Significant fluctuations in exchange rates, particularly following the Brexit vote in June, could have a material effect on the Group's future results. The Group continues to hedge its currency exposures through forward currency purchases using fixed rate and participating forward contracts up to twelve months ahead. This provided some price protection for the short-term impacts of Sterling revaluation, but we have needed to raise prices to cover increased product costs over the longer term.

Process improvement
During the past year, we reviewed our core business processes and sought to strengthen them in several areas, including decision-making around new product development, product scheduling and sales forecasting. We have continued to enhance our ERP system, which is driving improvements in the quality of data provision in the business.

People and performance
We have worked to ensure that Company objectives and newly created values have been cascaded down to teams and individuals to provide the necessary framework to ensure that all colleagues are aligned to deliver the Turnaround Plan.

Property update
On 13 June 2016, the Group disposed of its building in Spain for consideration of £1.0 million. On 28 February 2017, the Group completed the sale of its site at Margate for a consideration of £2.25 million. The gain on disposal from the sale of these properties of £1.5 million was treated as an exceptional item, and £2.25 million of the proceeds was used to repay bank borrowings, in accordance with our banking agreement.

Immediate strategic priorities
The key priority for the immediate future is to move the business to sustainable profit and cash generation by the following key steps.

Building on the strong profitability of the Hornby, Airfix and Humbrol Brands
Hornby, Airfix and Humbrol are three of our most profitable brands, which are particularly strong in serving our important hobby customers. There are significant opportunities to further improve the performance of these brands by continuing to improve execution, recovering lost market share, increasing margin and improving the brands' appeal to new customers.

Improving Scalextric's performance
The Scalextric brand primarily delivers slot car sets to consumers through multiple retailers and as such is a relatively low margin business. There are significant opportunities to improve Scalextric margins and to carefully grow volumes through improved innovation and marketing support.

Growing our European and US businesses
Now that fixed costs have been reduced by streamlining our European operations we are in a position to invest capital expenditure in new product tooling in order to deliver profitable growth in our high-margin model train business across the Jouef, Arnold and Rivarossi brands.

The US business has up to now not featured in the Turnaround Plan as it was not loss making. This business mostly distributes Scalextric, Airfix and Humbrol products, and is now embarking on a delivery of a profitable growth strategy under the leadership of a newly recruited Managing Director.

Further improving our customer service

During stage one of the turnaround we re-engaged with our Independent retailers, improved relationships with National multiple retailers and increased our level of contact with hobby consumers through consumer shows. Continuing to prioritise improved customer service is a core part of our strategy.

We have also stopped using our brand websites to compete with our important retail customers and will increasingly use the brand websites to provide information, support and advice to both retail customers and consumers.

Further efficiencies from ongoing cost reduction

We will continue to build on the cost reductions delivered through structural changes made in the Group last year. A key area of strategic focus is reducing product costs in constant purchasing currency terms. We will achieve this by giving our suppliers greater visibility on our future production plans and thereby helping them plan more effectively and reduce costs. In addition, we are introducing a programme of continuous improvement to drive further reduction in operating costs.

Maximising return from iconic brands

We will build the profile of our iconic brands by the use of selective licensing agreements into new product categories and markets.

Brand performance

Over the last year we have continued to release new products across all our brands. Hornby saw the release of a limited-edition Anniversary Pack of the Class 43 British Rail Intercity 125 High Speed Train celebrating 40 years of the iconic train.

Corgi released a range of classic James Bond models, whilst a newly tooled Electric Lightning in 1:48 scale has been well received by enthusiasts making it the first addition of a cold war jet in this size. Other notable releases included the Ride with Pride bus and a large selection of classic cars, including a stunning Sunbeam, which was launched at the Classic Motor Show in Birmingham alongside the full-size car.

Scalextric introduced a number of new sets to its range including, the popular supercars set Total Speed and Track Day ARC Air set with supercars McLaren P1 and Jaguar C-X75, as well as the Le Mans prototype set ahead of the world-famous endurance race in 2017. My First Scalextric set continued to be a key product for recruiting young racers. This year also marks Scalextric's 60th Anniversary, celebrated by the release of seven special edition cars.

Airfix added to its range of military aircraft, including the long-awaited Handley Page Victor B.2 in 1:72 scale, which was manufactured in the UK. Airfix QUICK BUILD also expanded, with the newly moulded VW Campervan, which has proven popular with VW enthusiasts and children alike.

Across our International train brands, we paid tribute to one of the biggest and most popular express passenger steam locomotives in France, Jouef's version of the '241P'. Other notable releases included the 'Class '95' steamer in TT scale in Germany, Arnold's '277' Spanish electric locomotive in N scale and Rivarossi's Grand Comfort coaches in Italy.

Outlook for 2017–18 and current trading

The outlook for the medium term has improved now the first stage of the Turnaround Plan has been completed. Much remains to be done to return the business to sustainable profit and positive cash generation but we are confident that the changes delivered last year will underpin the progress we plan to make.

At this early stage in the year we remain on track to achieve the Board's expectations for the year and we are confident we have the right plans in place to deliver shareholder value in the medium term.

Steve Cooke
Chief Executive
21 June 2017

Operating and Financial Review of the Year

Financial Review

	2017	2016
Revenue	**£47.4m**	£55.8m
Gross profit	**£18.2m**	£21.8m
Gross profit margin	**38%**	39%
Reported loss before tax	**£(9.5)m**	£(13.5)m
Underlying loss before tax[1]	**£(6.3)m**	£(5.7)m
Reported loss after tax	**£(9.7)m**	£(13.7)m
Basic loss per share	**(12.65)p**	(27.87)p
Underlying basic loss per share[1]	**(9.26)p**	(13.02)p
Net cash/(debt)	**£1.5m**	£(7.2)m

1 Stated before amortisation of intangibles (brands and customer lists), net unrealised foreign exchange movements on intercompany loans and exceptional items.

Performance

Consolidated revenue for the year ended 31 March 2017 was £47.4 million, a decrease of 15% compared to the previous year's £55.8 million, as we reduced the scale of the business in line with the Turnaround Plan. Gross profit margin was slightly lower, as expected, at 38% (2016: 39%) from the planned stock reduction of discontinued product lines and the closure of concessions as a distribution channel.

Overheads reduced year-on-year by 11% as a result of the measures taken in the Turnaround Plan. UK distribution costs reduced slightly despite the larger volume of products being handled through Hersden, following the European logistics reorganisation, offset by lower R&D costs reflecting the lower level of new product development going forwards as the number of products is reduced. Sales and marketing costs reduced by £2.2 million year-on-year due to lower spend on TV advertising, the substantial exit from concessions leading to a reduction in concession commissions and an overall fall in activity due to the reduced scale of the business. Admin costs were £1.1 million lower, reflecting the structural changes made as part of the Turnaround Plan. Other operating expenses in the year of £0.4 million (2016: £0.7 million) include foreign exchange gains and losses and the amortisation of certain intangible assets (brand names and customer lists). Foreign exchange gains on trading transactions in the year totalled £0.3 million compared with gains of £0.8 million in the previous year.

The underlying loss before taxation is shown to present a clearer view of the trading performance of the business. Management identified the following non-trivial adjustments, whose inclusion in earnings could distort underlying trading performance: net foreign exchange (gains)/losses on intercompany loans which are dependent on exchange rates from time to time and can be volatile and amortisation of intangibles which result from historical acquisitions. Additionally, exceptional items including restructuring costs and impairments to goodwill add volatility and these are one-off items and therefore have also been added back in calculating underlying loss before taxation.

	Group	
	2017 £'000	2016 £'000
Loss before taxation	**(9,509)**	(13,532)
Net foreign exchange impact on intercompany loans	**(410)**	(389)
Amortisation of intangibles	**344**	384
Exceptional items:		
Restructuring costs	**3,889**	993
Implementation of new ERP system	**–**	1,174
Refinancing costs	**944**	762
Profit on disposal of property	**(1,530)**	(223)
Impairment of property, plant and equipment – tooling	**–**	1,158
Impairment of goodwill	**–**	3,990
Underlying loss before taxation	**(6,272)**	(5,683)

Pre-tax loss before net foreign exchange movements on intercompany loans, amortisation of intangible brands, restructuring costs, implementation of the new ERP system, refinancing costs, profit on disposal of property, impairment of tooling and impairment of goodwill (hereafter referred to as underlying loss before taxation) was £6.3 million (2016: loss of £5.7 million). The basic loss per share calculated on underlying loss before taxation (hereafter referred to as underlying basic loss per share) was (9.26)p (2016: (13.02)p).

A total of £3.2 million (2016: £7.8 million) of costs shown in the table above have been identified as outside our definition of the measure of underlying profit. These costs in the year included the net foreign exchange impact on intercompany loans (gain of £0.4 million), amortisation of intangibles (£0.3 million) and exceptional items totalling £3.3 million. Of this total £0.1 million gain (2016: £5.1 million cost including impairment of goodwill and impairment of tooling) was the amortisation of intangible assets and the revaluation of intercompany loans, all of which are non-cash costs.

The exceptional items totalling £3.3 million (2016: £7.9 million) include restructuring costs (£3.9 million) relating to the streamlining of the European operations, reorganisation in the UK and the costs of running the Margate site during the period it was held for sale, costs relating to the 2016 equity issue and bank refinancing (£0.9 million) less the profit on the sale of the Margate and Spanish properties (£1.5 million).

Reported pre-tax loss was £9.5 million (2016: loss of £13.5 million) and reported basic loss per share was (12.61)p (2016: (27.87)p loss per share). The income tax charge for the year £0.2 million (2016: £0.2 million charge) arises mainly due to tax charge arising in Hornby Italy.

Segmental analysis

Domestic third-party sales by the UK business fell by 11% in the year as business scale and costs were reduced. The underlying loss of £4.8 million, compared to £2.1 million underlying loss last year, reflects the transition of the UK business with the major structural changes undertaken over the past year impacting upon underlying trading. Sales by the European businesses fell by 39% in the year and generated an underlying loss of £1.1 million as the business was streamlined and many functions and activity were transferred to the UK. The US business' sales grew by 14% on translation but were flat on a constant currency basis. The underlying trading loss of £0.3 million in the US was impacted by stock reduction and addressing ageing stock issues.

Statement of Financial Position

Property plant and equipment reduced year-on-year to £5.7 million from £7.2 million as depreciation of £3.0 million outweighed capital additions of £1.8 million, with disposals having a net impact of £0.4 million. Group inventories reduced significantly during the year due to the focus on stock reduction as part of the Turnaround Plan from £13.6 million to £9.7 million. Trade and other receivables reduced by 30% due to improved working

Operating and Financial Review of the Year
continued

capital management and due to the settlement of some large sales orders which were fulfilled just before the previous year end. Trade and other payables reduced by £0.7 million largely due to the reduced size of the business. The net effect of these factors was a reduction in working capital requirements of £7.0 million (a reduction of 37%). Overall investment in new tooling, new intangible computer software and other capital expenditure was £2.0 million (2016: £4.6 million).

Dividend
As the Company continues to deliver on its Turnaround Plan the decision has again been taken not to pay a dividend (2016: nil). The Board continues to keep the dividend policy under review.

Financing and capital structure
A Placing and Open Offer of 29,629,630 new ordinary shares at a price of 27p each, raising £7.5 million net of costs, was completed on 8 July 2016 with the funds being used to allow the business to pay down existing debt and to invest in the Turnaround Plan.

Borrowings in the year ended 31 March 2017 peaked towards the start of the year under the previous bank facility at £8.6 million. Since July 2016 the Company has operated within its new facility limit of £10 million, which stepped down to £7.75 million on 1 March 2017 following the sale of the Margate property.

The revolving credit facility of £7.75 million is in place until 31 December 2019 and is available for trading working capital and capital expenditure needs through to such date. The new facility has a margin of 3.5% over LIBOR and is subject to commitment and utilisation fees dependent on the level of drawings under the facility.

As is customary, the facility is subject to financial covenants, which the Group must comply with and which are to be tested quarterly. For the duration of the transition period of the Group's new business plan through to December 2017, such financial covenants comprise a minimum EBITDA test and a current asset (stock and receivables) to net debt test. Thereafter, the financial covenants comprise customary leverage and interest cover financial covenants.

Net cash at 31 March 2017 was £1.5 million compared with net debt of £7.2 million at 31 March 2016 giving undrawn facilities and available cash of £9.2 million at 31 March 2017.

Property update
On 13 June 2016, the Group disposed of its building in Spain for consideration of £1.0 million. The gain on disposal of £0.6 million was treated as an exceptional item.

On 28 February 2017, the Group completed the sale of its site at Margate for a consideration of £2.25 million. The gain on disposal from the sale of £0.9 million was treated as an exceptional item. The Group signed a leaseback of part of the site for the Hornby Visitors Centre and retail outlet.

Going concern
The Group has in place a £7.75 million banking facility with the Group's bankers through to December 2019 and available net cash of £1.5 million at 31 March 2017.

The Group has prepared trading, and cash flow forecasts for a period of two years, which have been reviewed and approved by the Board. On the basis of these forecasts, its existing bank facility and after detailed review of trading, financial position and cash flow models, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Our Key Performance Indicators ('KPIs')

The Directors are of the opinion that the financial KPIs are revenues, gross margins, underlying (loss)/profit before tax, (loss)/earnings per share and cash generation, the information for which is available in these financial statements and summarised on the financial highlights section earlier in this report. In monitoring the progress of delivery of the Turnaround Plan, management has put in place additional KPIs, such as the level of overhead savings and the amount of stock reduction achieved, to monitor progress on the key elements of the plan, which are considered fundamental to performance during the transition period. The Board monitors progress against plan on a regular basis, adjusting future objectives annually in line with current circumstances.

Identification of principal risks and uncertainties

The Board has the primary responsibility for identifying the major risks facing the Group and developing appropriate policies to manage those risks. The Board completes an annual risk assessment programme in order to identify the major risks and has reviewed and determined any mitigating actions required as set out below. The risk assessment has been completed in the context of the overall strategic objectives and the Turnaround Plan of the Group which has been set out on pages 10 to 13.

Principal risks and uncertainties

Risk	Description	Impact/sensitivity	Mitigation/comment
Market conditions	The Group has competition in the model railway, slot racing, model kits, die cast and paint markets. Failure to recruit new customers, loss of market share to increased competitor activity or alternative hobbies would have a negative impact on the Group's results. Failure to evolve and innovate products may lead to brands becoming less relevant in the marketplace.	The Group performance is impacted by the actions of competitors and changes in the wider retail landscape.	In many of our markets the Group enjoys a strong market position due to the continued development of our brands. Production of high-quality products which customers want is a key mitigating factor.
New business plan	New business plan may not fully achieve the aims of returning the Group to positive cash generation in 2017–18.	The reduction in business scale and costs, the reduction of the product lines, the requisite level of stock reduction, headcount reductions and/or the conversion of concession sales currently anticipated is not achieved and the Group does not achieve sustainable profit and cash generation.	The Group has developed clear targets and has cost-saving contingencies in the plan being actioned to put the necessary resources in place to deliver the aims of the plan.
Hobby market	Overall decline in the hobby market could lead to greater levels of competition in the medium term, which could have a negative impact on the Group's results.	Failing interest in traditional hobbies may impact our core Independent and National retailers and have a consequent impact upon the Group's performance.	In many of our markets the Group enjoys a strong market position due to the continued development of our brands. Brands are extremely important in the model sector with market entry costs being prohibitive. In the short-term there is an opportunity to regain market share lost through previous underperformance.
Exchange rates	The Group purchases goods in US Dollars and sells in Pounds Sterling, Euros and US Dollars and is therefore exposed to exchange rate fluctuations.	Significant fluctuations in exchange rates to which the Group is exposed could have a material adverse effect on the Group's future results. In particular, the negative impact on Sterling of Brexit and the continuing uncertainties will make the US Dollar purchase of its goods more expensive.	The Group continues to hedge short-term exposures by establishing forward currency purchases using fixed rate and participating forward contracts up to twelve months ahead. It is deemed impractical to hedge exchange rate movements beyond that period. The Group has also sought to pass on the impact of exchange rate movements to customers through increased prices.

Our Key Performance Indicators ('KPIs') continued

Risk	Description	Impact/sensitivity	Mitigation/comment
Supply chain	The Group's products are manufactured by specialist labour in China and India.	The Group does not have exclusive arrangements with its suppliers and there is a risk that competition for manufacturing capacity could lead to delays in introducing new products or servicing existing demand.	The Group is continuing to develop and review its vendor portfolio. A 26-step critical path analysis tool has been developed to monitor the whole manufacturing process in order to identify and deal with issues as they arise.
Capital allocation	New tooling is important to support the manufacturing of new products.	The risk is that the Group has insufficient capital to fund new tooling or invests ineffectively in the wrong products.	The new business plan significantly reduced the number of product lines and refocused the business on profitable lines which generate higher gross margins. This process will be underpinned by a robust capital allocation process aligned to brand strategies and brand delivery targets.
Product compliance	The Group's products are subject to compliance with toy safety legislation around the world.	Failure to comply could lead to a product recall, resulting in damage to Company and brand reputation, along with an adverse impact on the Group's results.	Robust internal processes and procedures, active monitoring of proposed legislation and involvement in policy debate and lobbying of the relevant authorities.
Liquidity	Insufficient financing to meet the needs of the business.	Without the appropriate level of financing it would be increasingly difficult to execute the Group's business plans.	The Group has an undrawn revolving credit facility of £7.75 million expiring December 2019. The Group's policy on liquidity risk is to maintain adequate facilities to meet the future needs of the business.
System and cyber risk	The Group continues to invest in the development of its website and implemented a new ERP system in 2015.	This exposes the business to greater risk of financial loss, disruption or damage to the reputation of an organisation from a failure of its information technology systems.	The Group has invested significant time and cost in the new website and ERP system in the last three years. The Group has dedicated web and ERP teams to monitor and maintain the Group's systems and holds appropriate insurance policies to minimise material risk.
Talent and skills	Recruitment, development and retention of talented people are key to the success of any business.	The Group fails to retain the necessary skills and talent to deliver the Group's plans.	Implementation of a new performance appraisal process to identify and manage skills and talent requirements. Competitive remuneration and training help with retention of employees.

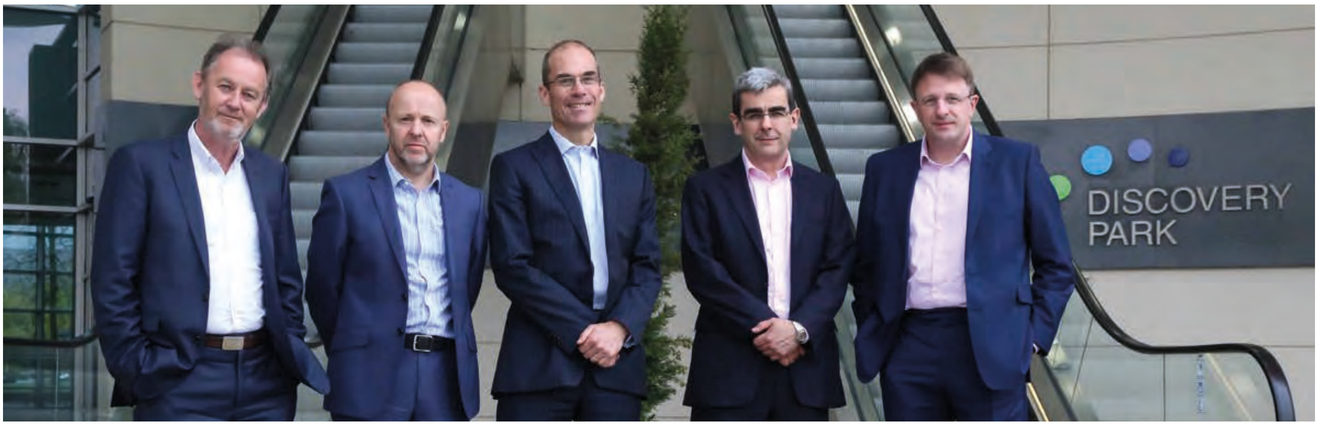
Main control procedures

Management establishes control policies and procedures in response to each of the key risks identified. Control procedures operate to ensure the integrity of the Group's financial statements, and are designed to meet the Group's requirements and manage both financial and operational risks identified in each area of the business. Control procedures are documented where appropriate and reviewed by management and the Board on an ongoing basis to ensure control weaknesses are mitigated.

The Group operates a comprehensive annual planning and budgeting system. The annual plans and budgets are approved by the Board. The Board reviews the management accounts at its monthly meetings and financial forecasts are updated monthly and quarterly. Performance against budget is monitored and where any significant deviations are identified appropriate action is taken.

David Mulligan
Group Finance Director
21 June 2017

Directors and Corporate Information



Left to right: David Adams, Martin George, Roger Canham, Steve Cooke and David Mulligan

Directors
Roger Canham
Executive Chairman

Steve Cooke
Chief Executive

David Mulligan
Group Finance Director

David Adams
Non-Executive Director

Martin George
Non-Executive Director

Company Secretary
David Mulligan

Registered office
3rd Floor The Gateway
Innovation Way
Discovery Park
Sandwich
Kent CT13 9FF

Company Registered Number
Registered in England Number: 01547390

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Portland Building
25 High Street
Crawley
West Sussex RH10 1BG

Solicitors
Berwin Leighton Paisner LLP
Adelaide House
London Bridge
London EC4R 9HA

Principal Bankers
Barclays Bank PLC
9 St George's Street
Canterbury
Kent CT1 2JX

Financial Advisers and Brokers
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Registrars and Transfer Agents
Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Director's Report

The Directors present their Annual Report together with the audited consolidated and Company financial statements for the year ended 31 March 2017.

The Group's business review, along with future developments and the principal risks and uncertainties facing the Group, is included in the Strategic Report.

PRINCIPAL ACTIVITIES

The Company is a holding company registered (and domiciled) in England Reg. No. 01547390 with a Spanish branch and has six operating subsidiaries: Hornby Hobbies Limited in the UK with a branch in Hong Kong, Hornby America Inc. in the US, Hornby España S.A. in Spain, Hornby Italia s.r.l in Italy, Hornby France S.A.S in France and Hornby Deutschland GmbH in Germany. Hornby PLC is a public limited company which is listed on the Alternative Investment Market ('AIM'), and incorporated and operating in the UK. Its registered office is set out on 19.

The Group is principally engaged in the development, design, sourcing and distribution of hobby and interactive products.

RESULTS AND DIVIDENDS

The results for the year ended 31 March 2017 are set out in the Group Statement of Comprehensive Income on page 27. Revenue for the year was £47.4 million compared to £55.8 million last year. The loss for the year attributable to equity holders amounted to £9.8 million (2016: £13.7 million loss). The position of the Group and Company is set out in the Group and Company Statements of Financial Position on page 28. Future developments are set out within the Chief Executive Officer's Report within the outlook paragraph on page 13.

No interim dividend was declared in the year (2016: £nil) and the Directors do not recommend a final dividend (2016: £nil).

Going concern

The Group has in place a £7.75 million banking facility with the Group's bankers through to December 2019 and available net cash of £1.5 million at 31 March 2017.

The Group has prepared trading and cash flow forecasts for a period of two years, which have been reviewed and approved by the Board. On the basis of these forecasts, its existing bank facility and after detailed review of trading, financial position and cash flow models, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

RESEARCH AND DEVELOPMENT

The Board considers that research and development into products continues to play an important role in the Group's success. R&D costs of £1.2 million (see note 4) incurred in the year have been charged to the Statement of Comprehensive Income and all of these costs relate to research costs.

DIRECTORS

The persons who were Directors during the year and up to the date of signing the financial statements are listed below:

Steve Cooke, aged 51, joined the Board on 13 July 2015 as Finance Director and on 26 April 2016 was appointed Chief Executive. Steve has significant financial and general management experience in both PLC and private environments. Previously, he was Finance Director at LSL Property Services PLC, COO at Bestinvest, CFO at Mapeley and CFO at Energis, where he was part of the successful turnaround team. Having qualified with Coopers & Lybrand, Steve was a strategy consultant with OC&C before spending time in senior financial and general management roles at Sainsbury's, Homebase and B&Q.

David Mulligan, aged 47, was appointed to the Board on 25 May 2016. David was formerly Group Finance Director at construction and regeneration company Morgan Sindall Group plc. More recently he was Municipal FD at Renewi plc. Prior to this he worked at Smiths Group plc and trained as a chartered accountant at Ernst & Young.

Roger Canham, aged 51, was appointed to the board on 7 November 2012 and became Chairman on 1 February 2013. Roger has been Chairman of Phoenix Asset Management Partners Limited ('Phoenix') since 2009 and also owns and manages a number of property development companies. Roger was recently Chairman of CPP Group until May 2016. Prior to that, he was a Non-Executive Director of Goshawk Insurance Holdings PLC from 2007 until the business was acquired in 2008, and a Director of Brake Bros Limited for a year following its acquisition of W. Pauley & Co Limited in 2002. Mr Canham joined W. Pauley & Co Limited in 1990 and became Managing Director in 1996.

David Adams, aged 62, was appointed a Non-Executive Director on 9 January 2014. David's current Plc appointments are; Chairman of Conviviality Plc, Non-Executive Director at Halfords Plc, Fever Tree Drinks Plc, Elegant Hotels Plc and Thinksmart Plc. David chairs the Audit Committees at Halfords, Fever Tree Drinks and Thinksmart, and the Remuneration Committee at Elegant Hotels. Prior to this David was CFO and Deputy CEO at House of Fraser and Executive Chairman at Jessops and has held a number of Non-Executive roles in retail and consumer businesses. In addition, he is a Trustee of Walk the Walk, a breast cancer charity.

Martin George, aged 54, was appointed as a Non-Executive Director on 22 December 2016. Martin has extensive experience in marketing and commercial roles and is currently Chairman of Grays International Limited. He was previously Chief Commercial Officer of The Post Office Limited, Non-Executive Director at Thorntons plc, Group Development Director and Group Marketing Director at BUPA and Commercial Director at British Airways.

Charlie Caminada, aged 57, was appointed to the Board on 9 January 2014. Charlie resigned on 22 December 2016.

The interests of the Directors in the shares of the Company and in options granted over such shares are disclosed on pages 23 and 24 of this Report.

DIRECTORS' INDEMNITIES

The Company maintained liability insurance for its Directors and officers during the financial year and up to the date of approval of the Annual Report and Accounts. The Company has also provided an indemnity for its Directors and the secretary, which is a qualifying third-party indemnity provision for the purposes of the Companies Act 2006.

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified that at close of business on 16 June 2017 the following parties were interested in 3% or more of the Company's ordinary share capital.

Shareholder	Number of ordinary shares	Percentage held
Phoenix Asset Management Partners Limited	29,022,877	34.31
New Pistoia Income Limited	17,641,141	20.86
Ruffer LLP	11,158,989	13.19
Downing LLP	5,529,714	6.54
Artemis Fund Managers Limited	3,000,000	3.55
Hargreave Hale	2,840,595	3.36

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' Report, confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group and loss of the Company; and
- the Chief Executive's Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

Director's Report continued

FINANCIAL INSTRUMENTS

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources, and various items, such as trade receivables, trade payables etc. that arise directly from its operations. The Group's financial liabilities comprise borrowings, trade payables, other payables and finance leases. The main purpose of the Group's borrowings is to provide finance for the Group's operations. The Group has financial assets comprising cash and trade and other receivables.

The Group also enters into derivatives transactions (principally forward foreign currency contracts). The purpose of such transactions is to manage the currency risks arising from the Group's operations. It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

FINANCIAL RISK MANAGEMENT

The financial risk is managed by the Group and more information on this can be found within the Notes to the Financial Statements on page 36.

PERSONNEL POLICIES

Hornby is committed to eliminating discrimination and encouraging diversity amongst our workforce. Our aim is that our workforce will be truly representative of all sections of society and each employee feels respected and able to give of their best.

To that end the purpose of personnel policies are to provide equality and fairness for all in our employment and not to discriminate on grounds of gender, marital status, race, ethnic origin, colour, nationality, national origin, disability, sexual orientation, religion or age. We oppose all forms of unlawful and unfair discrimination.

All employees, whether part-time, full-time or temporary, are treated fairly and with respect. Selection for employment, promotion, training or any other benefit is on the basis of aptitude and ability. All employees are helped and encouraged to develop their full potential and the talents and resources of the workforce are fully utilised to maximise the efficiency of the organisation.

Our commitments are:

- To create an environment in which individual differences and the contributions of all our staff are recognised and valued;
- Every employee is entitled to a working environment that promotes dignity and respect to all. No form of intimidation, bullying or harassment is tolerated;
- Training, development and progression opportunities are available to all staff;
- Equality in the workplace is good management practice and makes sound business sense;
- To regularly review all our employment practices and procedures to ensure fairness;
- Breaches of our equality policy are regarded as misconduct and may lead to disciplinary proceedings; and
- These policies will be monitored and reviewed on a regular basis.

The Group places importance on the contributions made by all employees to the progress of the Group and aims to keep them informed via formal and informal meetings. One of the Company's incentive schemes includes share scheme options for Directors and senior management, further details of which are covered on page 23.

SHARE CAPITAL

The share capital of the Company comprises ordinary shares of 1p each. Each share carries the right to one vote at general meetings of the Company. The issued share capital of the Company, together with movements in the Company's issued share capital, is shown in note 21.

INDEPENDENT AUDITORS

During the year the Board retendered the audit engagement following the retirement by rotation of the Senior Statutory Auditor. Following a market review and presentations from three audit firms, PricewaterhouseCoopers LLP were reappointed as the Company's auditors. A resolution to reappoint the auditors, PricewaterhouseCoopers LLP, will be proposed at the forthcoming Annual General Meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting is to be scheduled for early September 2017. A notice of the Annual General Meeting will be sent out to shareholders separately to this Annual Report and Accounts.

DIRECTORS' REMUNERATION

Executive Directors' base salaries are reviewed annually by the Committee taking into account the responsibilities, skills and experience of each individual, pay and employment conditions within the Company and salary levels within listed companies of a similar size.

The following table summarises the total salary and pension contributions received by Directors for 2016–17 and 2015–16 in line with the Companies Act 2006 requirement:

AUDITED

	Year ended 31 March 2017				Year ended 31 March 2016		
	Basic salary, allowances and fees £'000	**Pension contributions £'000**	**Bonus £'000**	**Total salary and pension contributions £'000**	Basic salary, allowances and fees £'000	Pension contributions £'000	Total salary and pension contributions £'000
S Cooke (Appointed 10 June 2015)	**283**	**51**	**148**	**482**	170	32	202
D Mulligan (Appointed 26 May 2016)	**184**	**18**	**65**	**267**	–	–	–
R Canham	**100**	**–**	**–**	**100**	100	–	100
D Adams	**40**	**–**	**–**	**40**	40	–	40
M George (Joined 22 December 2016)	**11**	**–**	**–**	**11**	–	–	–
C Caminada (Resigned 22 December 2016)	**106**[1]	**–**	**–**	**106**	40	–	40
R Ames (Resigned 12 February 2016)	**–**	**–**	**–**	**–**	373[2]	53	426
N Stone (Resigned 10 June 2015)	**–**	**–**	**–**	**–**	148[3]	21	169
Total	**724**	**69**	**213**	**1,006**	871	106	977

1 From 1 April 2016 C Caminada received a salary of £144,000 per annum until 30 September 2016 when he returned to his non-executive role and associated salary of £40,000 per annum until his resignation. Additionally, included within the basic salary and fees is compensation for loss of office totalling £20,000.
2 Included within the basic salary and fees is compensation for loss of office totalling £96,000
3 Included within the basic salary and fees is compensation for loss of office totalling £36,000

Performance Share Plan ('PSP') awards outstanding

At 31 March 2017, outstanding awards to Directors under the PSP were as follows:

Director	Award date	Vesting date	Market price at award date	At 1 April 2016	Awarded during year	Lapsed during year	Vested during year	**At 31 March 2017**
S Cooke	Aug 2015	Aug 2018	105.0p	190,476	–	–	–	**190,476**
	Dec 2016	Mar 2019	29.0p	–	2,136,752	–	–	**2,136,752**
R Canham	July 2013	July 2016	81.5p	122,699	–	122,699	–	**–**
	Dec 2016	Mar 2019	29.0p	–	170,940	–	–	**170,940**
D Mulligan	Dec 2016	Mar 2019	29.0p	–	598,290	–	–	**598,290**

For the 2013 awards the outstanding awards lapsed during the year.

For the 2015 awards, 40% of an award is subject to a TSR condition and 60% is subject to an EPS performance condition, both of which are measured over a period of three financial years. For the TSR condition, 25% of this part of the award will vest if Hornby's TSR is equal to the TSR of the median company of the constituents of the FTSE Small Cap (struck at the date of grant), with full vesting for top quartile performance, with a sliding scale operating between these points. For the EPS part of the award, 25% vests for average annual underlying EPS growth of RPI+3% per annum, with full vesting for average annual EPS growth of RPI+12% per annum. A sliding scale operates between these points.

For the 2016 awards, the award is subject to a TSR condition which are measured over a period of three financial years from 1 April 2016 to 31 March 2019. For the TSR condition, 25% of the award will vest if Hornby's TSR is equal to 15% compound annual growth each year, 75% vesting for 25% compound annual growth each year, with full vesting for 35% compound annual growth each year, with a sliding scale operating between these points. Additionally, for the award to vest, in the year ending 31 March 2019 operating cash flow has to be positive and profit before tax has to equal or exceed £1.5 million.

Director's Report continued

Benefits and pension

Policies concerning benefits, including the Group's company car policy, are reviewed periodically. Currently, benefits in kind comprise motor cars or a travel allowance and private health cover, both of which are non-performance-related. The Executive Directors and senior managers are members of defined contribution pension schemes and annual contributions are calculated by reference to base salaries, with neither annual bonuses nor awards under the share incentive schemes taken into account in calculating the amounts due. The contribution level continues to be 20% of base salary for Executive Directors, which can be taken as a cash allowance as an alternative.

Executive Directors' service contracts

The Executive Directors do not have fixed-period contracts.

Payments to past Directors, policy on payment of loss of office and termination payments

Payments totalling £287,540 were made to Richard Ames under his settlement agreement during the year up until August 2017. There were no other payments to past Directors made during the year. Notice periods are set under individual service contracts but the Company has a policy for Executive Director of a notice period of nine months to be given by the Company and of six months to be given by the individual. The compensation for loss of office is based upon the respective service contracts and the components are based on the base salary of the Director. Any outstanding awards under the Company's PSP share scheme are subject to good leaver provisions under the scheme's rules. Under certain circumstances and subject to certain criteria the Remuneration Committee has the power to determine the vesting of any outstanding awards.

DIRECTORS' INTERESTS

Interests in shares

In addition to their interests in shares in the Performance Share Plan, the interests of the Directors in the shares of the Company at 31 March 2017 were:

	At 31 March 2017 number	At 31 March 2016 number
Executive Directors		
S Cooke	**97,000**	–
D Mulligan	**–**	N/A
Non-Executive Directors		
R Canham	**40,000**	40,000
D Adams	**22,500**	10,000
M George	**–**	N/A

All the interests detailed above are beneficial. Apart from the interests disclosed above no Directors were interested at any time in the year in the share capital of any other Group company. Roger Canham is also the chairman of Phoenix Asset Management Partners Limited, who hold a substantial shareholding in Hornby PLC.

On behalf of the Board

David Mulligan
Group Finance Director
3rd Floor The Gateway
Innovation Way
Discovery Park
Sandwich
Kent CT13 9FF
21 June 2017

Independent Auditors' Report to the Members of Hornby PLC

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion, Hornby PLC's Group financial statements and Company financial statements (the 'financial statements'):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2017 and of the Group's and the Company's loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report (the 'Annual Report'), comprise:

- the Group and Company Statements of Financial Position as at 31 March 2017;
- the Group and Company Statements of Comprehensive Income for the year then ended;
- the Group and Company Cash Flow Statements for the year then ended;
- the Group and Company Statements of Changes in Equity for the year then ended; and
- the Notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the Notes to the Financial Statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group, the Company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ('ISAs (UK and Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent Auditors' Report to the Members of Hornby PLC continued

What an audit of financial statements involves
We conducted our audit in accordance with ISAs (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Graham Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
21 June 2017

Group and Company Statements of Comprehensive Income

for the Year Ended 31 March 2017

		Group		Company	
	Note	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Revenue	2	**47,420**	55,757	**1,370**	1,453
Cost of sales		**(29,270)**	(33,992)	**–**	–
Gross profit		**18,150**	21,765	**1,370**	1,453
Distribution costs		**(8,419)**	(8,441)	**–**	–
Selling and marketing costs		**(10,294)**	(12,472)	**–**	–
Administrative expenses		**(5,680)**	(6,814)	**(1,264)**	(1,001)
Other operating expenses		**358**	692	**–**	49
Operating Loss before exceptional items		**(5,885)**	(5,270)	**106**	501
Exceptional items		**(3,303)**	(7,854)	**(5,801)**	(9,511)
Operating loss	2	**(9,188)**	(13,124)	**(5,695)**	(9,010)
Finance income	3	**5**	21	**175**	174
Finance costs	3	**(326)**	(429)	**(205)**	(181)
Net finance expense	3	**(321)**	(408)	**(30)**	(7)
Loss before taxation	4	**(9,509)**	(13,532)	**(5,725)**	(9,017)
Income tax (charge)/credit	5	**(157)**	(182)	**100**	(68)
Loss for the year after taxation		**(9,666)**	(13,714)	**(5,625)**	(9,085)
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss:					
Cash flow hedges, net of tax		**(452)**	20	**–**	–
Currency translation differences		**15**	(127)	**(390)**	(401)
Other comprehensive expense for the year, net of tax		**(437)**	(107)	**(390)**	(401)
Total comprehensive loss for the year		**(10,103)**	(13,821)	**(6,015)**	(9,486)
Loss per ordinary share					
Basic	7	**(12.65)p**	(27.87)p		
Diluted	7	**(12.65)p**	(27.87)p		

All results relate to continuing operations.

The notes on pages 31 to 60 form part of these accounts.

Group and Company Statements of Financial Position

as at 31 March 2017

	Note	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Assets					
Non-current assets					
Goodwill	8	**4,554**	4,516	**–**	–
Intangible assets	9	**4,214**	4,777	**–**	–
Property, plant and equipment	10	**5,683**	7,192	**–**	–
Investments	11	**–**	–	**22,657**	28,398
Deferred tax assets	20	**1,974**	1,991	**–**	–
		16,425	18,476	**22,657**	28,398
Current assets					
Inventories	12	**9,680**	13,637	**–**	–
Trade and other receivables	13	**9,246**	13,192	**24,109**	15,329
Derivative financial instruments	19	**120**	394	**–**	–
Current tax assets	17	**50**	213	**50**	–
Cash and cash equivalents	14	**1,580**	677	**6**	1
Property, plant and equipment held for sale	10	**–**	1,462	**–**	1,069
		20,676	29,575	**24,165**	16,399
Liabilities					
Current liabilities					
Borrowings	18	**(82)**	(7,883)	**–**	–
Trade and other payables	15	**(6,664)**	(7,363)	**(27)**	(94)
Derivative financial instruments	19	**(190)**	(12)	**–**	–
Provisions	16	**(196)**	(446)	**–**	–
Current tax liabilities	17	**(212)**	–	**–**	(39)
		(7,344)	(15,704)	**(27)**	(133)
Net current assets		**13,332**	13,871	**24,138**	16,266
Non-current liabilities					
Borrowings	18	**–**	–	**(5,518)**	(4,902)
Deferred tax liabilities	20	**(94)**	(211)	**–**	(100)
		(94)	(211)	**(5,518)**	(5,002)
Net assets		**29,663**	32,136	**41,277**	39,662
Equity attributable to owners of the parent					
Share capital	21	**846**	550	**846**	550
Share premium		**27,445**	20,205	**27,445**	20,205
Capital redemption reserve		**55**	55	**55**	55
Translation reserve	23	**(1,371)**	(1,386)	**(1,144)**	(754)
Hedging reserve	23	**(70)**	382	**–**	–
Other reserves	23	**1,688**	1,688	**19,145**	19,145
Retained earnings/(accumulated losses)	23	**1,070**	10,642	**(5,070)**	461
Total equity		**29,663**	32,136	**41,277**	39,662

The notes on page 31 to 60 form part of these accounts. The financial statements on pages 27 to 60 were approved by the Board of Directors on 21 June 2017 and were signed on its behalf by:

D Mulligan
Director
Registered Company Number: 01547390

Group and Company Statements of Changes in Equity

for the Year Ended 31 March 2017

Group	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Translation reserve £'000	Hedging reserve £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2015	392	6,180	55	(1,259)	362	1,688	24,338	31,756
Loss for the year	–	–	–	–	–	–	(13,714)	(13,714)
Other comprehensive (expense)/income for the year	–	–	–	(127)	20	–	–	(107)
Total comprehensive income for the year	**–**	**–**	**–**	**(127)**	**20**	**–**	**(13,714)**	**(13,821)**
Transactions with owners								
Net proceeds from issue of ordinary shares	158	14,025	–	–	–	–	–	14,183
Share-based payments (note 22)	–	–	–	–	–	–	18	18
Total transactions with owners	**158**	**14,025**	**–**	**–**	**–**	**–**	**18**	**14,201**
Balance at 31 March 2016 and 1 April 2016	**550**	**20,205**	**55**	**(1,386)**	**382**	**1,688**	**10,642**	**32,136**
Loss for the year	–	–	–	–	–	–	(9,666)	(9,666)
Other comprehensive (expense)/income for the year	–	–	–	15	(452)	–	–	(437)
Total comprehensive (loss)/income for the year	**–**	**–**	**–**	**15**	**(452)**	**–**	**(9,666)**	**(10,103)**
Transactions with owners								
Net proceeds from issue of ordinary shares	296	7,240	–	–	–	–	–	7,536
Share-based payments (note 22)	–	–	–	–	–	–	94	94
Total transactions with owners	**296**	**7,240**	**–**	**–**	**–**	**–**	**94**	**7,630**
Balance at 31 March 2017	**846**	**27,445**	**55**	**(1,371)**	**(70)**	**1,688**	**1,070**	**29,663**

Retained earnings includes £nil at 31 March 2017 (2016: £553,000) which is not distributable and relates to a 1986 revaluation of land and buildings.

Company	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Translation reserve £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2015	392	6,180	55	(353)	19,145	9,528	34,947
Loss for the year	–	–	–	–	–	(9,085)	(9,085)
Other comprehensive expense for the year	–	–	–	(401)	–	–	(401)
Total comprehensive expense for the year	**–**	**–**	**–**	**(401)**	**–**	**(9,085)**	**(9,486)**
Transactions with owners							
Net proceeds from issue of ordinary shares	158	14,025	–	–	–	–	14,183
Share-based payments	–	–	–	–	–	18	18
Total transactions with owners	**158**	**14,025**	**–**	**–**	**–**	**18**	**14,201**
Balance at 31 March 2016 and 1 April 2016	**550**	**20,205**	**55**	**(754)**	**19,145**	**461**	**39,662**
Loss for the year	–	–	–	–	–	(5,625)	(5,625)
Other comprehensive expense for the year	–	–	–	(390)	–	–	(390)
Total comprehensive loss for the year	**–**	**–**	**–**	**(390)**	**–**	**(5,625)**	**(6,015)**
Transactions with owners							
Net proceeds from issue of ordinary shares	296	7,240	–	–	–	–	7,536
Share-based payments	–	–	–	–	–	94	94
Total transactions with owners	**296**	**7,240**	**–**	**–**	**–**	**94**	**7,630**
Balance at 31 March 2017	**846**	**27,445**	**55**	**(1,144)**	**19,145**	**(5,070)**	**41,277**

The notes on page 31 to 60 form part of these accounts.

Group and Company Cash Flow Statement

for the Year Ended 31 March 2017

	Note	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Cash flows from operating activities					
Cash generated from/(used in) operations	28	**91**	(9,632)	**(1,080)**	294
Interest paid		**(326)**	(429)	**(205)**	(181)
Tax received/(paid)		**118**	204	**(89)**	31
Net cash (used in)/generated from operating activities		**(117)**	(9,857)	**(1,374)**	144
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**3,338**	349	**2,248**	342
Purchase of property, plant and equipment	10	**(1,756)**	(3,221)	**–**	–
Purchase of intangible assets	9	**(226)**	(1,341)	**–**	–
Interest received		**5**	21	**175**	174
Net cash generated from/(used in) investing activities		**1,361**	(4,192)	**2,423**	516
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		**8,000**	15,000	**8,000**	15,000
Repayments of loans		**(188)**	(35)	**–**	–
Share issue costs		**(464)**	(817)	**(464)**	(817)
Advances to subsidiary undertakings		**–**	–	**(8,580)**	(14,843)
Repayments to subsidiary undertakings		**–**	–	**–**	–
Net cash generated from/(used in) financing activities		**7,348**	14,148	**(1,044)**	(660)
Net increase in cash and cash equivalents		**8,592**	99	**5**	–
Cash, cash equivalents and bank overdrafts at beginning of the year		**(7,029)**	(7,247)	**1**	1
Effect of exchange rate movements		**(65)**	119	**–**	–
Cash, cash equivalents and bank overdrafts at end of year		**1,498**	(7,029)	**6**	1
Cash, cash equivalents and bank overdrafts consist of:					
Cash and cash equivalents	14	**1,580**	677	**6**	1
Bank overdrafts	18	**(82)**	(7,706)	**–**	–
Cash, cash equivalents and bank overdrafts at end of year		**1,498**	(7,029)	**6**	1

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies for the year ended 31 March 2017

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial information for the year ended 31 March 2017 has been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'), IFRS Interpretations Committee ('IFRS-IC') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated Group and Parent Company financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit or loss. However, with regards to the Group, see below for details of material uncertainty.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Going concern

The Group has in place a £7.75 million banking facility with the Group's bankers through to December 2019 and available net cash of £1.5 million at 31 March 2017.

The Group has prepared trading and cash flow forecasts for a period of two years, which have been reviewed and approved by the Board. On the basis of these forecasts, its existing bank facility and after detailed review of trading, financial position and cash flow models, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Basis of consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset concerned. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Adoption of new and revised standards

There are no standards, amendments to standards or interpretations that are both mandatory for the first time for the financial year ended 31 March 2017 and that have a material impact on the Group's results.

The Group did not early adopt any standard, interpretation, or amendments published by the IASB and endorsed by the EU for which the mandatory application date is on or after 1 January 2016.

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

The following new standards, interpretations, and amendments to standards and interpretations have been issued, subject to the EU endorsement, but are not effective for the financial year beginning on or after 1 January 2014 and have not yet been early adopted by the Group:

	Effective date for periods beginning on or after
IFRS 9 'Financial Instruments'	1 January 2018
IFRS 15 'Revenue from Contracts with Customers'	1 January 2018
IFRS 16 'Leases'	1 January 2019
IAS 7 'Statement of cash flows'	1 January 2017
IAS 12 'Income Tax'	1 January 2017
Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	1 January 2016
Amendments to IAS 1 'Presentation of Financial Statements'	1 January 2016
Amendments to IAS 27 'Equity Method in Separate Financial Statements'	1 January 2016

IFRS 16 will replace the current guidance under IAS 17 and will have a significant impact on the accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 will require lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The adoption of IFRS 16 will have a material effect on the Hornby PLC financial statements by grossing up assets and liabilities by approximately £1 million; this will have an immaterial impact on the Statement of Comprehensive Income and no impact on the Group's cash flow.

Revenue recognition

Revenue is measured at the fair value of the sale of goods net of value added tax, rebates and discounts, royalty income and after eliminating sales within the Group.

Revenue is recognised as follows:

(a) Sale of goods
Sales of goods are recognised when a Group entity has delivered products to the customer. The customer is either a trade customer or the consumer when sold through Hornby concessions in various retail outlets, or via the internet.

(b) Royalty income
Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

(c) Sales returns
The Group establishes a sales returns provision at the period end that reduces revenue in anticipation of customer returns of goods sold in the period.

(d) Hornby Visitor Centre
Revenue is generated from the ticket and product sales at our Visitor Centre in Margate and recognised at the point of sale.

Dividend income in the Company is recognised upon receipt. Management fees are recognised in the Company on an accruals basis in relation to costs incurred on behalf of subsidiary companies.

Exceptional items

Where items of income and expense included in the statement of comprehensive income are considered to be material and exceptional in nature, separate disclosure of their nature and amount is provided in the financial statements. These items are classified as exceptional items. The Group considers the size and nature of an item both individually and when aggregated with similar items when considering whether it is material, for example impairment of intangible assets or restructuring costs.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of the Company that makes strategic decisions.

Operating profit of each reporting segment includes revenue and expenses directly attributable to or able to be allocated on a reasonable basis. Segment assets and liabilities are those operating assets and liabilities directly attributable to or that can be allocated on a reasonable basis.

Business combinations

Goodwill arising on a business combination before and after 1 April 2004, the date of transition to IFRS, is not subject to amortisation but tested for impairment on an annual basis. Intangible assets, excluding goodwill, arising on a business combination subsequent to 1 April 2004, are separately identified and valued, and subject to amortisation over their estimated economic lives.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment. Goodwill is recorded in the currency of the cash generating unit to which it is allocated.

Intangibles

(a) Brand names

Brand names, acquired as part of a business combination, are capitalised at fair value as at the date of acquisition. They are carried at their fair value less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the fair value of brand names over their estimated economic life of 15–20 years. Brand names have been valued on a 'relief from royalty' basis.

(b) Customer lists

Customer lists, acquired as part of a business combination, are capitalised at fair value as at the date of acquisition. They are carried at their fair value less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the fair value of customer relationships over their estimated economic life of ten years. Customer lists have been valued according to discounted incremental operating profit expected to be generated from each of them over their useful lives.

(c) Computer software

Computer software expenditure is capitalised at the value at the date of acquisition and depreciated over a useful economic life of 4–6 years.

Property, plant and equipment

Land and buildings are shown at cost less accumulated depreciation. Assets revalued prior to the transition to IFRS use this valuation as deemed cost at this date. Other property, plant and equipment are shown at historical cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided at rates calculated to write off the cost or valuation of each asset, on a straight-line basis (with the exception of tools and moulds) over its expected useful life to its residual value, as follows:

Freehold buildings	– 30 to 50 years
Plant and equipment	– 5 to 10 years
Motor vehicles	– 4 years

Freehold land is not depreciated.

Tools and moulds are depreciated at varying rates in line with the related estimated product sales on an item-by-item basis up to a maximum of four years.

Impairment of non-current assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount, which is considered to be the higher of its value in use and fair value less costs to sell. In order to assess impairment, assets are grouped into the lowest levels for which there are separately identifiable cash flows (cash-generating units). Cash flows used to assess impairment are discounted using appropriate rates taking into account the cost of equity and any risks relevant to those assets.

Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less any impairment. Investments revalued using the equity method of valuation prior to the transition to IFRS use this valuation as deemed cost at this date. Dividend income is shown separately in the Statement of Comprehensive Income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is predominantly determined using the first-in, first-out ('FIFO') method. Alternative methods may be used when proven to generate no material difference. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Net realisable value is based on anticipated selling price less further costs expected to be incurred to completion and disposal. Provisions are made against those stocks considered to be obsolete or excess to requirements on an item-by-item basis.

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

The replacement cost, based upon latest invoice prices before the balance sheet date, is considered to be higher than the balance sheet value of inventories at the year end due to price rises and exchange fluctuations. It is not considered practicable to provide an accurate estimate of the difference at the year end date.

Assets held for sale

Individual, formerly non-current assets, which are expected to be sold within the next twelve months, are measured at the lower of their carrying amount at the time they are reclassified and selling price less further costs expected to be incurred to disposal.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the Statement of Comprehensive Income.

Financial instruments

Financial assets and financial liabilities are recognised in the Group and Company Statements of Financial Position when the Group or Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

An equity instrument is any contract that evidences a residual interest in the assets of the Group and Company after deducting all of its liabilities. Equity instruments issued by the Group and Company are recorded at the proceeds received, net of direct issue costs.

Sales returns provisions

Provisions for sales returns are recognised when the Group has a constructive obligation as a result of a past event. Provisions for sales returns are measured at the present value of the expenditure expected to be required to settle the obligation.

Cash and cash equivalents

Cash and cash equivalents for the purpose of the cash flow statement includes cash in hand, deposits at banks, other liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts or loans where there is no right of set off are shown within borrowings in current or non-current liabilities on the balance sheet as appropriate.

Borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs and subsequently amortised over the life of the facility. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Taxation including deferred tax

Corporation tax, where payable, is provided on taxable profits at the current rate.

The taxation liabilities of certain Group undertakings are reduced wholly or in part by the surrender of losses by fellow Group undertakings.

Deferred tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Tax relating to items recognised directly in equity is recognised in equity and not in the Statement of Comprehensive Income.

Provisions

Liabilities and provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. The expense relating to any liability or provision is presented in the Statement of Comprehensive Income net of any reimbursement but only if reimbursement is virtually certain and will be settled simultaneously.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. If material, provisions are determined by discounting the expected future cash flows of the Group at rates that reflect current market assessments of the time value of money.

Share-based payment

Hornby PLC operates two share-based payment plans:

- Share Option Scheme
- Performance Share Plan

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Company is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

Share Option Scheme

Fair value is measured by use of the Black-Scholes Stochastic model. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Performance Share Plan

Awards are granted to Executive Directors in shares worth 100% of salary, with lower levels of grant for less senior executives.

The Performance Share Plan ('PSP') incorporates a two and a half year performance condition based on Total Shareholder Return ('TSR') applying to the award respectively and vesting on the two and a half year anniversary of grant as appropriate. The method applied in estimating the fair value of the 'PSP' awards is the Black-Scholes Stochastic model.

The TSR fair value is spread over the vesting period of the shares and recognised in the Statement of Comprehensive Income in the appropriate year.

Employee benefit costs

During the year the Group operated a defined contribution money purchase pension scheme under which it pays contributions based upon a percentage of the members' basic salary. The scheme is administered by trustees either appointed by the Company or elected by the members (to constitute one-third minimum).

Contributions to defined contribution pension schemes are charged to the Statement of Comprehensive Income according to the year in which they are payable.

Further information on pension costs and the scheme arrangements is provided in note 24.

Share capital and share premium

Ordinary shares issued are shown as share capital at nominal value. The premium received on the sale of shares in excess of the nominal value is shown as share premium within total equity.

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

Leases

The Group enters into operating leases only. Leases classed as operating leases are expensed on a straight-line basis to the Statement of Comprehensive Income over the lease term.

Financial risk management

Financial risk factors

The Group's operations expose it to a variety of financial risks that include the effects of changes in foreign currency exchange rates, market interest rates, credit risk and its liquidity position. The Group has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Group by using foreign currency financial instruments. In addition, other instruments are used to manage the Group's interest rate exposure.

(a) Foreign exchange risk

The Group is exposed to foreign exchange risks against Sterling primarily on transactions in US Dollars. It enters into forward currency contracts to hedge the cash flows of its product sourcing operation (i.e. it buys US Dollars forwards in exchange for Sterling) and looks forward six–twelve months on a rolling basis at forecasted purchase volumes. The policy framework requires hedging between 70% and 100% of anticipated import purchases that are denominated in US Dollars. The Company has granted Euro-denominated intercompany loans to subsidiary companies that are translated to Sterling at statutory period ends thereby creating exchange gains or losses. The loans to the subsidiaries, Hornby Deutschland GmbH, Hornby Italia s.r.l and Hornby France S.A.S are classified as long-term loans and therefore the exchange gains and losses on consolidation are reclassified to the translation reserve in Other Comprehensive Income as per IAS 21. The loan to the branch in Spain is classified as a long-term loan, however repayable on a shorter timescale than those of the other subsidiaries and therefore the exchange gains or losses are taken to Statement of Comprehensive Income.

(b) Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group borrows, principally in Sterling, at floating rates of interest to meet short-term funding requirements. At the year end the Group's borrowings comprised a revolving credit facility, bank overdrafts and a fixed-term loan agreement.

(c) Credit risk

The Group manages its credit risk through a combination of internal credit management policies and procedures.

(d) Liquidity risk

At 31 March 2017 the Group had a revolving credit facility of £7.75 million (2016: £10.0 million) expiring in December 2019 (2016: August 2019). Borrowings in the year ended 31 March 2017 peaked at £8.6 million. The funding needs are determined by monitoring forecast and actual cash flows. The Group regularly monitors its performance against its banking covenants to ensure compliance.

Derivative financial instruments

To manage exposure to foreign currency risk, the Group uses foreign currency forward contracts, also known as derivative financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of the hedged items.

(a) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in Other Comprehensive Income. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Comprehensive Income within operating expenses.

Amounts accumulated in Other Comprehensive Income are recycled in the Statement of Comprehensive Income in the periods when the hedged item affects profit or loss (for instance when the forecast purchase that is hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging import purchases is recognised in the Statement of Comprehensive Income within 'cost of sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) the gains and losses previously deferred in the Other Comprehensive Income are transferred from Other Comprehensive Income and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in income when the forecast transaction is ultimately recognised in the Statement of Comprehensive Income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss is immediately transferred to the Statement of Comprehensive Income.

(b) Derivatives that do not qualify for hedge accounting
Certain derivative instruments are not considered effective and do not qualify for hedge accounting. Such derivatives are classified at fair value through the Statement of Comprehensive Income, and changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in the Statement of Comprehensive Income.

Fair value estimation

The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values.

The fair values of the derivative financial instruments used for hedging purposes are disclosed in note 19.

Foreign currency

Transactions denominated in foreign currencies are recorded in the relevant functional currency at the exchange rates ruling at the date of the transaction. Foreign exchange gains and losses resulting from such transactions are recognised in the Statement of Comprehensive Income, except when deferred and disclosed in Other Comprehensive Income as qualifying cash flow hedges. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date and any exchange differences are taken to the Statement of Comprehensive Income.

Foreign exchange gains/losses recognised in the Statement of Comprehensive Income relating to foreign currency loans and other foreign exchange adjustments are included within operating profit.

On consolidation, the Statement of Comprehensive Income and cash flows of foreign subsidiaries are translated into Sterling using average rates that existed during the accounting period. The balance sheets of foreign subsidiaries are translated into Sterling at the rates of exchange ruling at the balance sheet date. Gains or losses arising on the translation of opening and closing net assets are recognised in Other Comprehensive Income.

Dividend distribution

Final dividends are recorded in the Statement of Changes in Equity in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

Critical judgements in applying the accounting policies

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have an element of risk causing an adjustment to the carrying amounts of assets and liabilities within the next financial year include provisions for stock obsolescence, customer returns, doubtful debts, impairment reviews, fair values of share-based payments, fair values of derivatives and recoverability of deferred tax assets. All of the above are estimated with reference to historical data, expectation of future events and reviewed regularly.

Whenever there is a substantiated risk that an item of stock's sellable value may be lower than its actual stock value, a provision for the difference between the two values is made. Management review the stock holdings on a regular basis and consider where a provision for excess or obsolete stock should be made based on expected demand for the stock and its condition.

The provision for sales returns is based on historic returns data applied to sales for the current year and this provision is reviewed by management on an ongoing basis.

Specific debtors are provided for when there is significant doubt that a repayment of debt will be fulfilled considering specific knowledge of the customer and sales terms of the debt outstanding.

The critical areas of judgement applied within the impairment reviews conducted include the weighted average cost of capital used in discounting the cash flows of the cash-generating units, the assessment of the initial growth rate used, the growth rate in perpetuity of the cash flows and the forecast operating profits of the cash-generating units. The judgements used within this assessment are set out within note 8.

The critical areas of judgement used in the share-based payment charge for the year include the assessment of the fair value of the option along with the expected volatility and option term. These are based on historical data where this is available and best estimates where historical data is not available. Further details in relation to share-based payments are given in note 22.

The deferred tax assets are assessed based on the current trading performance, expected future cash flows in the specific countries and the nature of the tax base.

The fair value of the financial derivatives is determined by the mark to market value at the year end date.

Notes to the Financial Statements continued

2. SEGMENTAL REPORTING

Management has determined the operating segments based on the reports reviewed by the Board (chief operating decision-maker) that are used to make strategic decisions.

The Board considers the business from a geographic perspective. Geographically, management considers the performance in the UK, USA, Spain, Italy and the rest of Europe.

Although the USA segment does not meet the quantitative thresholds required by IFRS 8, management has concluded that this segment should be reported, as it is closely monitored by the Board as it is outside Europe.

The Company is a holding company operating in the UK with its results given in the Company Statement of Comprehensive Income on page 27 and its assets and liabilities given in the Company Statement of Financial Position on page 28. Other Company information is provided in the other notes to the accounts.

Year ended 31 March 2017

		UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	**Total reportable segments £'000**	Intra-Group £'000	**Group £'000**
Revenue	– External	37,720	3,519	1,071	1,622	3,488	**47,420**	–	**47,420**
	– Other segments	6,956	–	–	–	–	**6,956**	(6,956)	**–**
Operating loss		**(11,864)**	**(323)**	**2,037**	**534**	**428**	**(9,188)**	**–**	**(9,188)**
Finance cost	– External	5	–	–	–	–	**5**	–	**5**
	– Other segments	594	–	–	–	–	**594**	(594)	**–**
Finance income	– External	(324)	–	(2)	–	–	**(326)**	–	**(326)**
	– Other segments	(175)	–	(205)	(145)	(69)	**(594)**	594	**–**
Loss before taxation		**(11,764)**	**(323)**	**1,830**	**389**	**359**	**(9,509)**	**–**	**(9,509)**
Taxation		100	(2)	(5)	(218)	(32)	**(157)**	–	**(157)**
Loss for the year		**(11,664)**	**(325)**	**1,825**	**171**	**327**	**(9,666)**	**–**	**(9,666)**
Segment assets		47,277	1,605	6,137	3,858	5,950	**64,827**	–	**64,827**
Less intercompany receivables		(17,027)	(65)	(5,884)	(3,280)	(3,495)	**(29,751)**	–	**(29,751)**
Add tax assets		2,024	–	–	–	–	**2,024**	–	**2,024**
Total assets		**32,274**	**1,540**	**253**	**578**	**2,455**	**37,100**	**–**	**37,100**
Segment liabilities		17,966	2,189	4,552	4,544	7,803	**37,054**	(29,922)	**7,132**
Less intercompany payables		(12,329)	(2,126)	(4,396)	(4,296)	(6,775)	**(29,922)**	29,922	**–**
Add tax liabilities		94	–	–	212	–	**306**	–	**306**
Total liabilities		**5,731**	**63**	**156**	**460**	**1,028**	**7,438**	**–**	**7,438**
Other segment items									
Capital expenditure		1,834	20	91	37	–	**1,982**	–	**1,982**
Depreciation		2,810	20	54	149	3	**3,036**	–	**3,036**
Net foreign exchange on intercompany loans		410	–	–	–	–	**410**	–	**410**
Amortisation of intangible assets		728	–	–	80	8	**816**	–	**816**
Impairment of goodwill		–	–	–	–	–	**–**	–	**–**
Share-based payment		110	–	–	–	–	**110**	–	**110**

All transactions between Group companies are on normal commercial terms.

Year ended 31 March 2016

		UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total reportable segments £'000	Intra-Group £'000	Group £'000
Revenue	– External	42,562	3,080	2,470	2,275	5,370	55,757	–	55,757
	– Other segments	6,534	–	2,250	696	822	10,302	(10,302)	–
Operating loss		(3,801)	(4)	(7,214)	(528)	(1,577)	(13,124)	–	(13,124)
Finance cost	– External	(379)	–	(38)	(3)	(9)	(429)	–	(429)
	– Other segments	(175)	–	(181)	(130)	(56)	(542)	542	–
Finance income	– External	21	–	–	–	–	21	–	21
	– Other segments	542	–	–	–	–	542	(542)	–
Loss before taxation		(3,792)	(4)	(7,433)	(661)	(1,642)	(13,532)	–	(13,532)
Taxation		(182)	–	–	–	–	(182)	–	(182)
Loss for the year		(3,974)	(4)	(7,433)	(661)	(1,642)	(13,714)	–	(13,714)
Segment assets		55,604	1,704	5,088	3,673	3,696	69,765	(23,918)	45,847
Less intercompany receivables		(20,918)	(53)	(720)	(1,051)	(1,176)	(23,918)	23,918	–
Add tax assets		1,752	–	–	157	295	2,204	–	2,204
Total assets		36,438	1,651	4,368	2,779	2,815	48,051	–	48,051
Segment liabilities		14,036	1,923	11,141	4,414	5,799	37,313	(21,609)	15,704
Less intercompany payables		–	(1,774)	(10,635)	(4,026)	(5,174)	(21,609)	21,609	–
Add tax liabilities		207	–	4	–	–	211	–	211
Total liabilities		14,243	149	510	388	625	15,915	–	15,915
Other segment items									
Capital expenditure		3,393	13	1,113	39	4	4,562	–	4,562
Depreciation		2,447	21	1,059	162	16	3,705	–	3,705
Net foreign exchange on intercompany loans		389	–	–	–	–	389	–	389
Amortisation of intangible assets		603	–	–	71	49	723	–	723
Impairment of goodwill		–	–	3,990	–	–	3,990	–	3,990
Share-based payment		18	–	–	–	–	18	–	18

All transactions between Group companies are on normal commercial terms.

3. FINANCE COSTS

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Finance costs:				
Interest expense on bank borrowings	**(326)**	(429)	**–**	–
Interest expense on intercompany borrowings	**–**	–	**(205)**	(181)
	(326)	(429)	**(205)**	(181)
Finance income:				
Bank interest	**5**	21	**–**	–
Interest income on intercompany loans	**–**	–	**175**	174
	5	21	**175**	174
Net finance costs	**(321)**	(408)	**(30)**	(7)

Notes to the Financial Statements continued

4. LOSS BEFORE TAXATION

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
The following items have been included in arriving at loss before taxation:				
Staff costs (note 24)	**10,587**	11,010	**1,452**	1,147
Inventories:				
– Cost of inventories recognised as an expense (included in cost of sales)	**23,339**	26,808	**–**	–
– Stock provision	**(646)**	(895)	**–**	–
Depreciation of property, plant and equipment:				
– Owned assets	**3,036**	3,705	**–**	19
Profit on disposal of fixed assets	**1,439**	193	**926**	223
Other operating lease rentals payable:				
– Plant and machinery	**92**	125	**–**	–
– Property	**719**	1,058	**–**	–
Repairs and maintenance expenditure on property, plant and equipment	**86**	171	**–**	–
Research and development expenditure	**1,154**	1,760	**–**	–
Foreign exchange (gains)/losses:				
– On trading transactions and ineffective hedges	**–**	(135)	**–**	–
Impairment of trade receivables	**486**	163	**–**	–
Share-based payment charge/(credit)	**110**	18	**76**	(48)
Other operating expenses/(income):				
– Foreign exchange on trading transactions	**(292)**	(822)	**–**	–
– Net impact of foreign exchange on intercompany loans	**(410)**	(389)	**–**	–
– Movement on fair value of ineffective hedge	**–**	135	**–**	–
– Amortisation of intangible assets – brands	**344**	384	**–**	–

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Exceptional items comprise:				
– Restructuring costs	**3,889**	993	**761**	–
– Implementation of ERP system	**–**	1,174	**–**	–
– Refinancing	**944**	762	**191**	191
– Profit on disposal of property	**(1,530)**	(223)	**(926)**	(223)
– Impairment of property, plant and equipment	**–**	1,158	**–**	–
– Impairment of goodwill	**–**	3,990	**–**	–
– Impairment of investment	**–**	–	**5,775**	9,543
	3,303	7,854	**5,801**	9,511

The exceptional items totalling £3,303,000 (2016: £7,854,000) include restructuring costs (£3,889,000) relating to the streamlining of the European operations, redundancy costs, professional fees, reorganisation in the UK and the costs of running the Margate site, costs relating to the 2016 equity issue and bank refinancing (£944,000) less the profit on the sale of the Margate and Spanish properties (£1,530,000).

The Company's exceptional items include £5,775,000 (2016: £9,543,000) in respect of impairment charges against investments in overseas subsidiaries following the restructuring.

Services provided by the Company's auditors and network firms

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditors and network firms as detailed below:

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Fees payable to the Company's auditors for the audit of Parent Company and consolidated accounts	**50**	103	**10**	15
Fees payable to the Company's auditors and its associates for other services:				
– The auditing of accounts of the Company's subsidiaries	**62**	39	**–**	39
– Audit-related assurance services	**5**	5	**–**	–
– Tax advisory services	**–**	19	**–**	–
– Tax compliance services	**–**	1	**–**	–
– Other advisory work	**95**	–	**–**	–
	212	167	**10**	54

In the current financial year the level of non-audit fees was within the 1:1 ratio to audit fees as per Audit Committee policy. Other advisory work relates to the raising of equity in 2016.

5. INCOME TAX CHARGE/(CREDIT)

Analysis of tax charge/(credit) in the year

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Current tax				
– UK taxation	**–**	–	**–**	89
adjustments in respect of prior years	**–**	(43)	**–**	–
– overseas taxation	**212**	(8)	**–**	–
adjustments in respect of prior years	**45**	–	**–**	–
	257	(51)	**–**	89
Deferred tax (note 20)				
– current year	**(199)**	(569)	**(94)**	(3)
– overseas taxation	**–**	348	**–**	–
– adjustments in respect of prior years	**–**	255	**–**	(7)
– effect of tax rate change on opening balance	**99**	199	**(6)**	(11)
	(100)	233	**(100)**	(21)
Total tax charge/(credit) to the loss before tax	**157**	182	**(100)**	68

Notes to the Financial Statements continued

5. INCOME TAX CHARGE/(CREDIT) continued

The tax for the year differs to the standard rate of corporation tax in the UK of 20%. Any differences are explained below:

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Loss before taxation	**(9,509)**	(13,532)	**(5,725)**	(9,017)
Loss on ordinary activities multiplied by rate of corporation tax in UK of 20% (2016: 20%)	**(1,902)**	(2,706)	**(1,145)**	(1,803)
Effects of:				
Adjustments to tax in respect of prior years	**45**	212	**–**	(7)
Permanent timing differences	**83**	1,208	**868**	1,889
Difference on overseas rates of tax	**(110)**	(486)	**–**	–
Deferred tax not recognised	**1,942**	1,755	**183**	–
Remeasurement of deferred tax				
– change in UK tax rate to 17% (2016:18%)	**99**	199	**(6)**	(11)
Total taxation	**157**	182	**(100)**	68

The Company's profits for this accounting year are taxed at an effective rate of 20%. The UK corporation tax rate is due to decrease further to 19% on 1 April 2017 and 17% on 1 April 2020.

UK deferred tax balances have been restated in these accounts and carried forward at a rate of 17%, being the current rate substantively enacted for periods from 1 April 2020 onwards.

Unrecognised deferred tax relates primarily to overseas subsidiaries and is not recognised due to lack of confidence in future profits from overseas subsidiaries. More detail can be found in Note 20.

6. DIVIDENDS

No interim or final dividends were paid in relation to the year ended 31 March 2016 and no interim dividend has been paid in relation to the year ended 31 March 2017. The Directors are not proposing a final dividend in respect of the financial year ended 31 March 2017.

7. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share trust (note 22) which are treated as cancelled.

For diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares that have satisfied the appropriate performance criteria at 31 March 2017. For the year ended 31 March 2017, there was no difference in the weighted average number of shares used for basic and diluted net loss per ordinary because their inclusion would be anti-dilutive.

Reconciliations of the loss and weighted average number of shares used in the calculations are set out below.

	2017			2016		
	(Loss)/ earnings £'000	Weighted average number of shares '000	Per-share amount pence	(Loss)/ earnings £'000	Weighted average number of shares '000	Per-share amount pence
Reported						
Basic loss per share						
Loss attributable to ordinary shareholders	**(9,666)**	**76,384**	**(12.65)**	(13,714)	49,200	(27.87)
Effect of dilutive securities						
Options	**–**	**–**	**–**	–	–	–
Diluted loss per share	**(9,666)**	**76,384**	**(12.65)**	(13,714)	49,200	(27.87)
Underlying						
Loss attributable to ordinary shareholders	**(9,666)**	**76,384**	**(12.65)**	(13,714)	49,200	(27.87)
Amortisation of intangibles	**275**	**–**	**0.36**	307	–	0.62
Restructuring costs	**3,111**	**–**	**4.07**	794	–	1.61
Implementation of new ERP system	**–**	**–**	**–**	939	–	1.91
Refinancing	**755**	**–**	**0.99**	610	–	1.24
Profit on disposal of property	**(1,223)**	**–**	**(1.6)**	(178)	–	(0.36)
Impairment of PPE – tooling	**–**	**–**	**–**	1,158	–	2.36
Impairment of goodwill	**–**	**–**	**–**	3,990	–	8.11
Net foreign exchange translation adjustments	**(328)**	**–**	**(0.43)**	(311)	–	(0.64)
Underlying basic loss/EPS	**(7,076)**	**76,384**	**(9.26)**	(6,405)	49,200	(13.02)
Underlying diluted loss/EPS	**(7,076)**	**76,384**	**(9.26)**	(6,405)	49,200	(13.02)

The above numbers used to calculate the EPS for the year ended 31 March 2017 and 31 March 2016 have been tax effected at the rate of 20% respectively with the exception of Hornby Spain where the net deferred tax asset associated with the impairment in 2016 has not been recognised.

Notes to the Financial Statements continued

8. GOODWILL

Group	£'000
Cost	
At 1 April 2016	13,007
Exchange adjustments	38
At 31 March 2017	**13,045**
Aggregate impairment	
At 1 April 2016	8,491
Charge for the year	–
Exchange adjustments	–
At 31 March 2017	**8,491**
Net book amount at 31 March 2017	**4,554**
Cost	
At 1 April 2015	12,973
Exchange adjustments	34
At 31 March 2016	13,007
Aggregate impairment	
At 1 April 2015	4,509
Charge for the year	3,990
Exchange adjustments	(8)
At 31 March 2016	8,491
Net book amount at 31 March 2016	4,516
Net book amount at 31 March 2015	8,464

The Company has no goodwill.

The goodwill has been allocated to cash-generating units and a summary of carrying amounts of goodwill by geographical segment (representing cash-generating units) at 31 March 2017 is as follows:

Group	UK £'000	USA £'000	France £'000	Germany £'000	Total £'000
At 31 March 2017	**3,992**	**10**	**358**	**194**	**4,554**
At 31 March 2016	3,992	8	337	179	4,516

Goodwill allocated to the above cash-generating units of the Group has been measured based on benefits each geographical segment is expected to gain from the business combination.

Impairment tests for goodwill

Management reviews the business performance based on geography. Budgeted revenue was based on expected levels of activity given results to date, together with expected economic and market conditions. Budgeted operating profit was calculated based upon management's expectation of operating costs appropriate to the business as reflected in the new business plan.

The relative risk adjusted (or 'beta') discount rate applied reflects the risk inherent in hobby based product companies. In determining this discount rate, management has applied an adjustment for risk of such companies in the industry on average determined using the betas of comparable hobby based product companies. The forecasts are based on approved budgets for the year ending 31 March 2018 and the three-year business plan for the year ending 31 March 2021. Cash flows beyond the four-year period are extrapolated using an estimated 4% year-on-year growth rate. The cash flows were discounted using a pre-tax discount rate of 13% (2016: 13%) which management believes is appropriate for all territories.

The key assumptions used for value-in-use calculations for the year ended 31 March 2017 are as follows:

Group	UK (Corgi)	UK (Airfix and Humbrol)	France	Spain	Italy	Germany
EDITDA[1]	**38.9%**	**35.6%**	**37.4%**	**n/a**	**n/a**	**40.7%**
Growth rate to perpetuity[2]	**1.0%**	**1.0%**	**1.0%**	**n/a**	**n/a**	**1.0%**

The key assumptions used for value-in-use calculations for the year ended 31 March 2016 are as follows:

Group	UK (Corgi)	UK (Airfix and Humbrol)	France	Spain	Italy	Germany
Gross Margin[1]	46.2%	46.2%	59.7%	59.7%	59.7%	59.7%
Growth rate to perpetuity[2]	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%

1. Budgeted contribution: Corgi and Airfix/Humbrol # Budgeted EBITDA: France and Germany.
2. Weighted average growth rate used to extrapolate cash flows beyond the budget period.

These assumptions have been used for the analysis of each CGU within the operating segments.

For the UK CGU, the recoverable amount calculated based on value-in-use exceeded carrying value by £9.0 million. A reduction in EBITDA to respectively 59% for Corgi and 43% for Airix/Humbrol, or a rise in discount rate to respectively 23% for Corgi and 44% for Airfix/Humbrol would remove the remaining headroom.

For the France CGU, the recoverable amount calculated based on value in use exceeded carrying value by £975k. A reduction in EBITDA to 28%, or a rise in discount rate to 40% would remove the remaining headroom.

For the Germany CGU, the recoverable amount calculated based on value in use exceeded carrying value by £662k. A reduction in EBITDA to 45%, or a rise in discount rate to 27% would remove the remaining headroom.

9. INTANGIBLE ASSETS

Group	Brand names £'000	Customer lists £'000	Computer software £'000	**Total £'000**
Intangible assets				
Cost				
At 1 April 2016	4,813	1,405	2,329	**8,547**
Additions	–	–	226	**226**
Exchange adjustments	101	10	–	**111**
At 31 March 2017	4,914	1,415	2,555	**8,884**
Accumulated amortisation				
At 1 April 2016	2,203	1,228	339	**3,770**
Charge for the year	249	95	472	**816**
Exchange adjustments	74	10	–	**84**
At 31 March 2017	2,526	1,333	811	**4,670**
Net book amount at 31 March 2017	**2,388**	**82**	**1,744**	**4,214**

Notes to the Financial Statements continued

9. INTANGIBLE ASSETS continued

Group	Brand names £'000	Customer lists £'000	Computer Software £'000	**Total £'000**
Intangible assets				
Cost				
At 1 April 2015	4,683	1,372	988	**7,043**
Additions	–	–	1,341	**1,341**
Exchange adjustments	130	33	–	**163**
At 31 March 2016	4,813	1,405	2,329	**8,547**
Accumulated amortisation				
At 1 April 2015	1,897	1,075	–	**2,972**
Charge for the year	263	121	339	**723**
Exchange adjustments	43	32	–	**75**
At 31 March 2016	2,203	1,228	339	**3,770**
Net book amount at 31 March 2016	2,610	177	1,990	**4,777**
Net book amount at 31 March 2015	2,786	297	988	**4,071**

All amortisation charges in the year have been charged in other operating expenses. The Company held no intangible assets.

10. PROPERTY, PLANT AND EQUIPMENT

Group	Plant and equipment £'000	Motor vehicles £'000	Tools and moulds £'000	**Total £'000**
Cost				
At 1 April 2016	6,806	194	58,801	**65,801**
Exchange adjustments	51	4	1,172	**1,227**
Additions at cost	57	–	1,699	**1,756**
Disposals	(2,032)	–	–	**(2,032)**
At 31 March 2017	4,882	198	61,672	**66,752**
Accumulated depreciation				
At 1 April 2016	5,536	194	52,879	**58,609**
Exchange adjustments	34	1	1,005	**1,040**
Charge for the year	337	1	2,698	**3,036**
Disposals	(1,616)	–	–	**(1,616)**
At 31 March 2017	4,291	196	56,582	**61,069**
Net book amount at 31 March 2017	**591**	**2**	**5,090**	**5,683**

Depreciation is charged in the Group's Statement of Comprehensive Income within Administrative expenses.

Group	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Tools and moulds £'000	Total £'000
Cost					
At 1 April 2015	2,952	6,598	239	55,039	64,828
Exchange adjustments	47	88	6	1,030	1,171
Additions at cost	–	395	–	2,826	3,221
Transfer to current assets held for sale	(2,999)	–	–	–	(2,999)
Disposals	–	(275)	(51)	(94)	(420)
At 31 March 2016	–	6,806	194	58,801	65,801
Accumulated depreciation					
At 1 April 2015	1,371	5,156	230	47,811	54,568
Exchange adjustments	47	75	7	882	1,011
Charge for the year	32	544	–	3,129	3,705
Transfer to current assets held for sale	(1,450)	–	–	–	(1,450)
Impairment	–	–	–	1,158	1,158
Disposals	–	(239)	(43)	(101)	(383)
At 31 March 2016	–	5,536	194	52,879	58,609
Net book amount at 31 March 2016	–	1,270	–	5,922	7,192
Net book amount at 31 March 2015	1,581	1,442	9	7,228	10,260

The impairment charge in the previous year relates to tooling held in Hornby España S.A. and Hornby Hobbies Limited, which management no longer intend to use in the medium-term operations of the business.

The Group holds no finance leases (2015: none).

Company	Plant and equipment £'000	**Total £'000**
Cost		
At 1 April 2016 and at 31 March 2017	4	**4**
Accumulated depreciation		
At 1 April 2016	4	**4**
Charge for the year	–	**–**
At 31 March 2017	4	**4**
Net book amount at 31 March 2017	–	**–**

Company	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 April 2015	2,428	4	2,432
Transfer to current assets held for sale	(2,428)	–	(2,428)
Net book amount at 31 March 2016	–	4	4
Accumulated depreciation			
At 1 April 2015	1,221	4	1,225
Charge for the year	19	–	19
Transfer to current assets held for sale	(1,240)	–	(1,240)
At 31 March 2016	–	4	4
Net book amount at 31 March 2016	–	–	–
Net book amount at 31 March 2015	1,207	–	1,207

10. PROPERTY, PLANT AND EQUIPMENT continued

The Company does not hold any assets under finance leases. Freehold land amounting to £nil (2016: £786,000) has not been depreciated.

Property, plant and equipment held for sale

At 31 March 2016 the Group had a clear intention to sell the land and buildings held by the Company and by its subsidiary Hornby España S.A. These assets were reclassified as current assets under IFRS 5. During the year to 31 March 2017 the Group sold the land and buildings held for sale for net proceeds of £3,297,000 giving a gain of £1,813,000 compared to the net book value of £1,483,000 at 31 March 2016. This gain has been treated as an exceptional item.

11. INVESTMENTS

Company

The movements in the net book value of interests in subsidiary undertakings are as follows:

	Interests in subsidiary undertakings at valuation £'000	Loans to subsidiary undertakings at cost £'000	Total £'000
At 1 April 2016	23,564	4,834	28,398
Capital contribution relating to share-based payment	34	–	34
Net increase in loans to subsidiary undertaking	–	–	–
Impairment of investment in subsidiary undertakings	(5,775)		(5,775)
At 31 March 2017	**17,823**	**4,834**	**22,657**
At 1 April 2015	33,155	4,171	37,326
Capital contribution relating to share-based payment	(48)	–	(48)
Net increase in loans to subsidiary undertaking	–	663	663
Impairment of investment in subsidiary undertakings	(9,543)	–	(9,543)
At 31 March 2016	23,564	4,834	28,398

Interest was charged on loans to subsidiary undertakings at Sterling three-month LIBOR + 3.6%.

Loans are unsecured and exceed five years' maturity.

The impairment of investments in the year relates to a write down to the investments held in Italy, France Spain and UK.

Group subsidiary undertakings

Details of the subsidiaries of the Group are set out below. Hornby Hobbies Limited is engaged in the development, design, sourcing and distribution of models. Hornby America Inc., Hornby Italia s.r.l., Hornby France S.A.S, Hornby España S.A. and Hornby Deutschland GmbH are distributors of models. Hornby Industries Limited and H&M (Systems) Limited are dormant companies.

			Proportion of nominal value of issued shares held	
	Country of incorporation, registration and business	Description of shares held	Group %	Company %
Hornby Hobbies Limited	Discovery Park, Sandwich, Kent CT13 9FF, UK	Ordinary shares	100	100
Hornby America Inc.	3900 Industry Dr E, Fife, WA 98424, USA	Ordinary shares	100	100
Hornby España S.A.	C/Federico Chueca, S/N, E28806 ALCALA DE HENARES Spain	Ordinary shares	100	100
Hornby Italia s.r.l.	Viale dei Caduti, 52/A6 25030 Castel Mella (Brescia), Italy	Ordinary shares	100	100
Hornby France S.A.S.	31 Bis rue des Longs Pres, 92100 Boulogne, Billancourt, France	Ordinary shares	100	100
Hornby Deutschland GmbH	Oeslauer StraBe 36, 96472, Rodental, Germany	Ordinary shares	100	100
Hornby Industries Limited	Discovery Park, Sandwich, Kent CT13 9FF, UK	Ordinary shares	100	100
H&M (Systems) Limited	Discovery Park, Sandwich, Kent CT13 9FF, UK	Ordinary shares	100	100

12. INVENTORIES

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Work in progress	–	57	–	–
Finished goods	9,680	13,580	–	–
	9,680	13,637	–	–

Movements on the Group provision for impairment of inventory is as follows:

	2017 £'000	2016 £'000
At 1 April	1,442	706
Provision for inventory impairment	(234)	774
Inventory written-off during the year	(423)	(45)
Exchange adjustments	11	7
At 31 March	796	1,442

13. TRADE AND OTHER RECEIVABLES

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Current:				
Trade receivables	8,884	12,303	–	–
Less: provision for impairment of receivables	(1,026)	(540)	–	–
Trade receivables – net	7,858	11,763	–	–
Other receivables	803	103	–	–
Prepayments	585	1,326	48	74
Amounts owed by subsidiary undertaking	–	–	24,061	15,255
	9,246	13,192	24,109	15,329

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated and therefore the provision for receivables impairments are deemed adequate.

Gross trade receivables can be analysed as follows:

	2017 £'000	2016 £'000
Fully performing	4,823	9,939
Past due	3,035	1,824
Fully impaired	1,026	540
Trade receivables	8,884	12,303

As of 31 March 2017, trade receivables of £3,035,000 (2016: £1,824,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2017 £'000	2016 £'000
1–120 days	2,257	1,451
>120 days	778	373
	3,035	1,824

As of 31 March 2017, trade receivables of £1,026,000 (2016: £540,000) were impaired and provided for. The amount of provision was £1,026,000 (2016: £540,000) as of 31 March 2017.

Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial reorganisation are considered indications that the trade receivable is impaired.

13. TRADE AND OTHER RECEIVABLES continued

The ageing of these receivables, based on due date, is as follows:

	2017 £'000	2016 £'000
1–120 days	**233**	57
> 120 days	**793**	483
	1,026	540

Movements on the Group provision for impairment of trade receivables is as follows:

	2017 £'000	2016 £'000
At 1 April	**540**	375
Provision for receivables impairment	**450**	163
Receivables written-off during the year as uncollectible	**(53)**	(23)
Exchange adjustments	**89**	25
At 31 March	**1,026**	540

The (release)/charge relating to the movement in provision has been included in 'Administrative expenses' in the Statement of Comprehensive Income.

The carrying amounts of the Group and Company trade and other receivables and amounts owed by subsidiary undertaking are denominated in the following currencies:

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Sterling Intercompany	**–**	–	**24,061**	15,255
Sterling	**5,440**	7,648	**–**	–
Euro	**2,628**	3,907	**–**	–
US Dollar	**593**	311	**–**	–
HK Dollar	**–**	–	**–**	–
	8,661	11,866	**24,061**	15,255

14. CASH AND CASH EQUIVALENTS

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Cash at bank and in hand	**1,580**	677	**6**	1

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Current:				
Trade payables	**3,212**	5,306	**–**	–
Other taxes and social security	**677**	797	**4**	14
Other payables	**655**	564	**–**	–
Accruals	**2,120**	696	**23**	80
	6,664	7,363	**27**	94

16. PROVISIONS

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Sales returns				
At 1 April	**446**	255	**–**	–
Charge to Statement of Comprehensive Income	**811**	784	**–**	–
Utilised in the year	**(1,061)**	(593)	**–**	–
At 31 March	**196**	446	**–**	–

Provision is made for future sales returns based on historical trends. The provision is expected to be utilised within one year from the balance sheet date.

17. CURRENT TAX ASSETS AND LIABILITIES

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Current tax assets				
UK corporation tax recoverable	**50**	168	**50**	–
Overseas corporation tax recoverable	**–**	45	**–**	–
	50	213	**50**	–
Current tax liabilities				
UK corporation tax liability	**–**	–	**–**	39
Overseas corporation tax liability	**212**	–	**–**	–
	212	–	**–**	39

18. BORROWINGS

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Secured borrowing at amortised cost				
Bank overdrafts	**82**	7,706	**–**	–
Bank loan	**–**	177	**–**	–
Loan from subsidiary undertakings	**–**	–	**5,518**	4,902
	82	7,883	**5,518**	4,902
Total borrowings				
Amount due for settlement within twelve months	**82**	7,883	**–**	–
Amount due for settlement after twelve months	**–**	–	**5,518**	4,902
	82	7,883	**5,518**	4,902

The Company borrowings are denominated in Sterling. All intercompany borrowings are formalised by way of loan agreements. The loans can be repaid at any time, however the Company has received confirmation from its subsidiary that they will not require payment within the next twelve months.

Notes to the Financial Statements continued

18. BORROWINGS continued

Analysis of borrowings by currency:

Group	Sterling £'000	Euros £'000	Total £'000
31 March 2017			
Bank overdrafts	**82**	**–**	**82**
Bank loan	**–**	**–**	**–**
	82	**–**	**82**
31 March 2016			
Bank overdrafts	7,704	2	7,706
Bank loan	–	177	177
	7,704	179	7,883

The principal features of the Group's borrowings are as follows:

At 31 March 2017 the Group had a revolving credit facility of £7,750,000 expiring December 2019 and the future interest rates on this facility are LIBOR + 3.5%.

The average effective interest rate on bank overdrafts approximated 3.95% (2016: 3.4%) per annum and is determined based on 3.5% (2016: 2.9%) above three-month LIBOR.

Net cash at bank and bank overdrafts of £1,498,000 (2016: £7,206,000) are with financial institutions with a credit rating of A2 per Moody's rating agency.

Undrawn borrowing facilities

At 31 March 2017, the Group had available £7,668,000 (2016: £2,971,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

19. FINANCIAL INSTRUMENTS

The Group's policies and strategies in relation to risk and financial instruments are detailed in note 1.

	Assets		Liabilities	
Group	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Carrying values of derivative financial instruments				
Forward foreign currency contracts – cash flow hedges	**120**	394	**(190)**	(12)

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates during the next twelve months. Gains and losses recognised in reserves on forward foreign exchange contracts as of 31 March 2017 are recognised in the Statement of Comprehensive Income first in the period or periods during which the hedged forecast transaction affects the Statement of Comprehensive Income, which is within twelve months from the balance sheet date.

At 31 March 2016 the gross value of forward currency contracts was as follows:

	2017 '000	2016 '000
US Dollar	**12,718**	11,800

The total net fair value above for forward foreign currency contracts comprises £70,000 liability (2016: £382,000 asset) of which £70,000 net liability (2016: £382,000 asset) represents an effective hedge at 31 March 2017 and therefore debited to Other Comprehensive Income in accordance with IAS 39.

In accordance with IAS 39, the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. No embedded derivatives have been identified.

The Company has no derivative financial instruments.

Fair values of non-derivative financial assets and liabilities

For the Group and the Company, as at 31 March 2017 and 31 March 2016, there is no difference between the carrying amount and fair value of each of the following classes of financial assets and liabilities, principally due to their short maturity: trade and other receivables, cash at bank and in hand, trade and other payables and current borrowings. Bank deposits attract interest within 1.0% of the ruling market rate. There is no significant difference between the fair value and carrying amount of non-current borrowings as the impact of discounting is not significant.

Maturity of financial liabilities

Group	Bank loan £'000	Overdraft facilities £'000	Accounts payable and accruals £'000	2017 Total £'000
Less than one year	–	82	6,664	**6,746**
Between one and two years	–	–	–	**–**
Between two and five years	–	–	–	**–**
More than five years	–	–	–	**–**
	–	82	6,664	**6,746**

	Bank loan £'000	Overdraft facilities £'000	Accounts payable and accruals £'000	2016 Total £'000
Less than one year	177	7,706	7,363	15,246
Between one and two years	–	–	–	–
Between two and five years	–	–	–	–
More than five years	–	–	–	–
	177	7,706	7,363	15,246

Company	2017 Intercompany debt £'000	2016 Intercompany debt £'000
More than five years (note 18)	**5,518**	4,902

Hierarchy of financial instruments

The following tables present the Group's assets and liabilities that are measured at fair value at 31 March 2017 and 31 March 2016. The table analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

There were no transfers or reclassifications between Levels within the year. Level 2 hedging derivatives comprise forward foreign exchange contracts and have been fair valued using forward exchange rates that are quoted in an active market. The effects of discounting are generally insignificant for Level 2 derivatives.

The fair value of the following financial assets and liabilities approximate their carrying amount: Trade and other receivables, other current financial assets, cash and cash equivalents (excluding bank overdrafts), trade and other payables.

Notes to the Financial Statements continued

19. FINANCIAL INSTRUMENTS continued

Financial Instruments

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Trading derivatives	–	–	–	–
Derivatives used for hedging	–	120	–	120
Available-for-sale financial assets	–	–	–	–
Total assets as at 31 March 2017	–	120	–	120
Liabilities				
Interest rate swap	–	–	–	–
Derivatives used for hedging	–	(190)	–	(190)
Total liabilities at 31 March 2017	–	(190)	–	(190)

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Trading derivatives	–	–	–	–
Derivatives used for hedging	–	394	–	394
Available-for-sale financial assets	–	–	–	–
Total assets as at 31 March 2016	–	394	–	394
Liabilities				
Interest rate swap	–	–	–	–
Derivatives used for hedging	–	(12)	–	(12)
Total liabilities at 31 March 2016	–	(12)	–	(12)

Interest rate sensitivity

The Group is exposed to interest rate risk as the Group borrows funds at both fixed and floating interest rates. The exposure to these borrowings varies during the year due to the seasonal nature of cash flows relating to sales.

In order to measure risk, floating rate borrowings and the expected interest costs are forecast on a monthly basis and compared to budget using management's expectations of a reasonably possible change in interest rates.

The effect on both income and equity based on exposure to borrowings at the balance sheet date for a 1.0% increase in interest rates is £41,000 (2016: £83,000) before tax. A 1% fall in interest rates gives the same but opposite effect. 1% is considered an appropriate benchmark given the minimum level of movement in the UK interest rate over recent years and expectation over the next financial year.

Foreign currency sensitivity

The Group is primarily exposed to fluctuations in US Dollars and Euros. The following table details how the Group's income and equity would increase on a before tax basis, given a 10% revaluation in the respective currencies against Sterling and in accordance with IFRS 7 all other variables remaining constant. A 10% devaluation in the value of Sterling would have the opposite effect. The 10% change represents a reasonably possible change in the specified foreign exchange rates in relation to Sterling.

	Comprehensive income and equity sensitivity	
	2017 £'000	2016 £'000
US Dollars	**3,349**	995
Euros	**1,163**	1,067
	4,512	2,062

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net (cash)/debt divided by total capital. Net debt is calculated as total borrowings as shown in the consolidated balance sheet less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

	2017 £'000	2016 £'000
Total borrowings (note 18)	**82**	7,883
Less:		
Total cash and cash equivalents (note 14)	**(1,580)**	(677)
Net (cash)/debt	**(1,498)**	7,206
Total equity	**29,663**	32,136
Total capital	**28,165**	39,342
Gearing	**(5%)**	18%

20. DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method.

The movement on the deferred tax account is as shown below:

	Group		**Company**	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
At 1 April	**(1,780)**	(1,968)	**100**	121
Credit/(charge) to Statement of Comprehensive Income (note 5) – origination and reversal of temporary differences	**(100)**	233	**(100)**	(21)
Exchange adjustments	**–**	(45)	**–**	–
At 31 March	**(1,880)**	(1,780)	**–**	100

Deferred tax assets have been recognised in respect of UK timing differences only. Temporary differences giving rise to deferred tax assets have been recognised in the UK where it is probable that those assets will be recovered.

No deferred tax is provided for tax liabilities which would arise on the distribution of profits retained by overseas subsidiaries because there is currently no intention that such profits will be remitted.

The movements in deferred tax assets and liabilities during the year are shown below.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset.

Notes to the Financial Statements continued

20. DEFERRED TAX continued

Deferred tax liabilities	Group: Revaluation £'000	Accelerated capital allowances £'000	Acquisition intangibles £'000	Other including accelerated capital allowances £'000	**Total £'000**	Company: Revaluation £'000	Accelerated capital allowances £'000	**Total £'000**
At 1 April 2016	100	–	111	–	**211**	100	–	**100**
Credit to Statement of Comprehensive Income	(100)	–	(17)	–	**(117)**	(100)	–	**(100)**
Transferred from deferred tax assets	–	–		–	**–**	–	–	**–**
At 31 March 2017	**–**	**–**	**94**	**–**	**94**	**–**	**–**	**–**
At 1 April 2015	114	7	–	10	131	114	7	121
Credit to Statement of Comprehensive Income	(14)	(7)	–	(10)	(31)	(14)	(7)	(21)
Transferred from deferred tax assets	–	–	111	–	111	–	–	–
At 31 March 2016	100	–	111	–	211	100	–	100

Deferred tax assets	Group: Short-term incentive plan £'000	Acquisition intangibles £'000	Other £'000	**Total £'000**	Company: Short-term incentive plan £'000	**Total £'000**
At 1 April 2016	–	–	(1,991)	**(1,991)**	–	**–**
Charge to Statement of Comprehensive Income	–	–	17	**17**	–	**–**
Foreign exchange	–	–	–	**–**	–	**–**
Transferred to deferred tax liabilities	–	–	–	**–**	–	**–**
At 31 March 2017	**–**	**–**	**(1,974)**	**(1,974)**	**–**	**–**
At 1 April 2015	–	(161)	(1,938)	(2,099)	–	–
Charge/(Credit) to Statement of Comprehensive Income	–	272	(8)	264	–	–
Foreign exchange	–	–	(45)	(45)	–	–
Transferred to deferred tax liabilities	–	(111)	–	(111)	–	–
At 31 March 2016	–	–	(1,991)	(1,991)	–	–
Net deferred tax (asset)/liability						
At 31 March 2017				**(1,880)**	**–**	**–**
At 31 March 2016				(1,780)	–	100

Group	**2017 Recognised £'000**	**2017 Not recognised £'000**	2016 Recognised £'000	2016 Not recognised £'000
Deferred tax comprises:				
Depreciation in excess of capital allowances	**(1,901)**	**(71)**	(1,404)	–
Other temporary differences – UK	**21**	**(1,510)**	(376)	–
Other temporary differences – overseas	**–**	**(2,537)**	–	(2,644)
Deferred tax asset	**(1,880)**	**(4,118)**	(1,780)	(2,644)

The UK deferred tax asset not recognised of £1,581,000 primarily relates to unrecognised losses in Hornby Hobbies Limited of £8,179,000 (2016: £141,000) (potential deferred tax asset of £1,400,000) and Hornby PLC of £633,000 (potential deferred tax asset of £108,000). It also relates to a potential deferred tax asset in respect of accelerated capital allowances of £71,000 and a potential deferred tax asset in respect of short-term timing differences of £12,000.

The deferred tax asset not recognised in respect of overseas losses carried forward of £2,537,000 relates to losses carried forward of £1,462,000 in respect of Hornby España S.A. (potential deferred tax asset of £365,000), £1,886,000 in respect of Hornby France S.A.S. (potential deferred tax asset of £629,000), £1,719,000 in respect of Hornby Deutschland GmbH (potential deferred tax asset of £548,000) and £3,566,000 in respect of Hornby Italia s.r.l. (potential deferred tax asset of £995,000).

Given the streamlining of the European operations during the year no deferred tax has been recognised on the losses incurred as there is not a high degree of certainty that they will be recovered in the future.

	2017		2016	
Company	**Recognised £'000**	**Not recognised £'000**	Recognised £'000	Not recognised £'000
Deferred tax comprises:				
Accelerated capital allowances	**–**	**–**	–	–
Other timing differences	**–**	**(108)**	100	–
Deferred tax (asset)/liability	**–**	**(108)**	100	–

21. SHARE CAPITAL

Group and Company

Allotted, issued and fully paid:

	2017		2016	
Ordinary shares of 1p each	**Number of shares**	**£'000**	Number of shares	£'000
At 1 April	**54,953,574**	**550**	39,164,100	392
Issue of ordinary shares	**29,629,630**	**296**	15,789,474	158
At 31 March	**84,583,204**	**846**	54,953,574	550

On 11 July 2016 the Company issued 29,629,630 ordinary 1p shares for 27p per share, totalling £8,000,000. At 31 March 2017 there were no options granted under the Company's share option schemes which remained outstanding.

22. SHARE-BASED PAYMENTS

Hornby PLC operates two share-based payment plans – Share Option Scheme ('SOS') and Performance Share Plan ('PSP').

SOS awards

The SOS awards were a reward of share options to Executive Directors and senior management in previous years.

Activity relating to share options for the years ended 31 March 2017 and 31 March 2016 was as follows:

	2017		2016	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 April	**–**	**–**	150,000	201.0p
Exercised	**–**	**–**	–	–
Lapsed	**–**	**–**	(150,000)	201.0p
Outstanding at 31 March	**–**	**–**	–	–

No options were exercised within the financial year (2016: nil).

Performance Share Plan

All Performance Share Plan ('PSP') awards outstanding at 31 March 2017 vest only if performance conditions are met. Awards granted under the PSP must be exercised within one year of the relevant award vesting date.

The Group operates the PSP for Executive Directors and senior executives. Awards under the scheme are granted in the form of a nil-priced option, and are satisfied using market-purchased shares.

The 2017 awards vest in full or in part dependent on the satisfaction of specified performance targets. 100% of the award vests dependent on TSR performance over a two and a half-year performance period, relative to the Net Return Index determined at the time of the award.

Notes to the Financial Statements continued

22. SHARE-BASED PAYMENTS continued

All plans are subject to continued employment. To the extent that such shares in the above plans are awarded to employees below fair value, a charge calculated in accordance with IFRS 2 'Share-based Payment' is included within other operating expenses in the Statement of Comprehensive Income. This charge for the Group amounts to £110,000, of which £94,000 has been taken to reserves and £16,000 to accruals representing the National Insurance due, and the charge for the Company amounted to £76,000 in the year ended 31 March 2017 (2016: £18,000 charge for the Group amount and the credit for the Company amounted to £47,000).

The following table summarises the key assumptions used for grants during the year:

	2017 PSP[1]	2016 PSP[1]
Fair value (p)	**11.13p**	68.61p
Options pricing model used	**Black-Scholes (Stochastic)**	Black-Scholes (Stochastic)
Share price at grant date (p)	**29.0p**	68.0p
Exercise price (p)	**nil**	nil
Expected volatility (%)	**58.0%**	32.4%
Risk-free rate (%)	**n/a**	n/a
Expected option term (years)	**2.5**	3
Expected dividends (per year, %)	**0%**	0%

1 Assumptions for TSR component only.

Assumptions on expected volatility and expected option term have been made on the basis of historical data, wherever available, for the period corresponding with the vesting period of the option. Best estimates have been used where historical data is not available in this respect.

23. RESERVES

Capital redemption reserve

This reserve records the nominal value of shares repurchased by the Company.

Translation reserve

The translation reserve represents the foreign exchange movements arising from the translation of financial statements in foreign currencies.

Hedging reserve

The hedging reserve comprises the effective portion of changes in the fair value of forward foreign exchange contracts that have not yet occurred.

Other reserves

This reserve represents historic negative goodwill arising prior to the transition to IFRS.

24. EMPLOYEES AND DIRECTORS

	Group		**Company**	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Staff costs for the year:				
Wages and salaries	**8,541**	8,559	**871**	834
Share-based payments (note 22)	**94**	18	**76**	(48)
Social security costs	**911**	1,090	**104**	121
Other pension costs (note 25)	**442**	555	**74**	107
Redundancy and compensation for loss of office	**599**	788	**327**	133
	10,587	11,010	**1,452**	1,147

The redundancy costs form part of the restructuring costs in the year classified as exceptional items.

Average monthly number of people (including Executive Directors) employed by the Group:

	Group		Company	
	2017 Number	2016 Number	**2017 Number**	2016 Number
Operations	**60**	47	**–**	1
Sales, marketing and distribution	**100**	139	**–**	1
Administration	**30**	44	**3**	5
	190	230	**3**	7

Key management compensation:

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Salaries and short-term employee benefits	**1,688**	1,780	**917**	839
Share-based payments	**110**	18	**76**	(48)
Other pension costs	**118**	172	**69**	107
Redundancy and compensation for loss of office	**241**	544	**20**	133
	2,157	2,514	**1,082**	1,031

Key management comprise the individuals involved in major strategic decision making and includes all Group and subsidiary Directors.

A detailed numerical analysis of Directors' remuneration and share options showing the highest paid Director, number of Directors accruing benefits under money purchase pension schemes is included in the Directors' Report on page 23 and forms part of these financial statements.

25. PENSION COMMITMENTS

The Group operates a defined contribution pension scheme by way of a Stakeholder Group Personal Pension Plan set up through the Friends Provident Insurance Group.

Alexander Forbes International is appointed as Independent Financial Adviser to work in liaison with the Company.

The level of contributions to the Group Personal Pension Plan for current members is fixed by the Company.

The Group pension cost for the year was £442,000 (2016: £555,000) representing the actual contributions payable in the year and certain scheme administration costs. The Company pension cost for the year was £74,000 (2016: £107,000). No contributions were outstanding at the year end of 31 March 2017.

26. FINANCIAL COMMITMENTS

Group	**2017 £'000**	2016 £'000
At 31 March capital commitments were:		
Contracted for but not provided	**412**	414

The commitments relate to the acquisition of property, plant and equipment.

The Company does not have any capital commitments.

Contingent Liabilities

The Company and its subsidiary undertakings are, from time to time, parties to legal proceedings and claims, which arise in the ordinary course of business. The Directors do not anticipate that the outcome of these proceedings and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

Notes to the Financial Statements continued

27. OPERATING LEASE COMMITMENTS

The total of future minimum lease payments in respect of non-cancellable property, plant and motor vehicle operating leases falling due are as follows:

Group	Land and Buildings 2017 £'000	Land and Buildings 2016 £'000	Other 2017 £'000	Other 2016 £'000	Total 2017 £'000	Total 2016 £'000
Not later than one year	**657**	375	**82**	96	**739**	472
Later than one year but not more than five years	**1,238**	920	**123**	168	**1,362**	1,087
More than five years	**166**	259	**–**	–	**166**	259
	2,061	1,554	**205**	264	**2,267**	1,818

The distribution arm of the business continues to be outsourced to a third party company, DS Logistics. The initial agreement with DS Logistics was for five years from August 2014 and approximate costs under the contract if it were to be terminated early are approximately £1 million a year for the remainder of the term.

28. GROUP AND COMPANY CASH FLOWS FROM OPERATING ACTIVITIES

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Loss before taxation	**(9,509)**	(13,532)	**(5,725)**	(9,017)
Interest payable	**326**	429	**205**	181
Interest receivable	**(5)**	(21)	**(175)**	(174)
Amortisation of intangible assets	**816**	723	**–**	–
Impairment of goodwill	**–**	3,990	**–**	–
Impairment of investment	**–**	–	**5,775**	9,543
Depreciation	**3,036**	3,705	**–**	19
Impairment of tooling	**–**	1,158	**–**	–
Profit on disposal of property, plant and equipment	**(1,439)**	(193)	**(1,179)**	(223)
Share-based payments	**94**	18	**60**	(48)
Loss on financial derivatives	**–**	135	**–**	–
(Decrease)/increase in provisions	**(250)**	191	**–**	–
Decrease/(increase) in inventories	**4,311**	(650)	**–**	–
Decrease/(increase) in trade and other receivables	**4,335**	(2,351)	**26**	(62)
(Decrease)/increase in trade and other payables	**(1,624)**	(3,212)	**(67)**	75
Decrease in derivative financial instruments	**–**	(22)	**–**	–
Cash generated from/(used in) operations	**91**	(9,632)	**(1,080)**	294

29. RELATED PARTY DISCLOSURES

B Ahir is our Managing Director of Hornby Hobbies Asia and a Director of Hornby Hobbies Limited, a subsidiary of Hornby PLC. 28One, not to be confused with companies of a similar name, owned by B Ahir has provided ongoing support to manage product delivery for which Hornby Hobbies has paid £206,000 (2016: £176,000) in relation to these services in the year. No payments remained outstanding to 28One as at 31 March 2017. Hornby Hobbies Limited continues to use these services on an ongoing basis.

There were no other contracts with the Company or any of its subsidiaries existing during or at the end of the financial year in which a Director of the Company or any of its subsidiaries was interested. There are no other related-party transactions.

The Company received management fees from subsidiaries of £1,369,000 (2016: £1,316,000), interest of £175,000 (2016: £174,000) and dividends from subsidiaries of £nil (2016: £ nil) and incurred interest of £205,000 (2016: £181,000) on intercompany borrowings. It also received a rental income of £nil (2016: £450,000).

30. EVENTS AFTER THE END OF THE REPORTING PERIOD

No significant events have occurred between the date of the Statement of Financial Position and the date of signing of these accounts.

Notice of Annual General Meeting (Unaudited)

If you have sold or otherwise transferred all of your ordinary shares in Hornby Plc, please forward this document as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through or to whom the sale or transfer was effected for transmission to the purchaser or transferee of your ordinary shares.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the thirty-sixth Annual General Meeting of Hornby Plc (the '**Company**') will be held at the offices of Berwin Leighton Paisner LLP, Adelaide House, London Bridge, London, EC4R 9HA on Wednesday, 6 September 2017 at 11.00 a.m. for the following purposes:

To consider and, if thought fit, to pass the following resolutions, of which numbers 1 to 8 (inclusive) will be proposed as ordinary resolutions and numbers 9 and 10 as special resolutions.

ORDINARY RESOLUTIONS

1. To receive and adopt the Company's Annual Report and Accounts for the financial year ended 31 March 2017 together with the Report of the Directors and Auditors.

2. To approve the Directors' Remuneration, as set out within the Directors' Report on pages 22 to 24 of the Company's Annual Report and Accounts, for the financial year ended 31 March 2017.

3. To re-elect Martin George as a Director of the Company.

4. To re-elect David Adams as a Director of the Company.

5. To re-elect James Wilson as a Director of the Company.

6. To reappoint PricewaterhouseCoopers LLP, the retiring auditors, as auditors of the Company to hold office from the conclusion of the Annual General Meeting to the conclusion of the next meeting at which accounts are laid before the Company.

7. To authorise the Directors to agree the auditors' remuneration.

8. THAT, in place of the equivalent authority given to the Directors at the last Annual General Meeting (but without prejudice to the continuing authority of the Directors to allot shares pursuant to an offer or agreement made by the Company before the expiry of the authority pursuant to which such offer or agreement was made), the Directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the '**Act**') to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to a maximum aggregate nominal amount of £281,944.01, provided that this authority shall expire at the conclusion of the Company's next Annual General Meeting following the date of the passing of the resolution, but so that the Company may, before the expiry of such period, make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the expiry of such period and the Directors may allot shares or grant rights to subscribe for or convert securities into shares pursuant to such an offer or agreement as if this authority had not expired.

Notice of Annual General Meeting (Unaudited)
continued

SPECIAL RESOLUTIONS

9. THAT, subject to and conditional on the passing of resolution 8, the Directors be empowered, pursuant to section 570 of the Act, to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by resolution 8 as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

   (a) in connection with an offer of such securities by way of Rights Issue (defined below);
   (b) otherwise than pursuant to resolution 9(a) above up to an aggregate nominal amount of £42,291.60; and
   (c) in addition to the amount in paragraph 9(b) above, the allotment of equity securities for cash up to an aggregate nominal amount of £42,291.60, provided that any allotment of equity securities under this paragraph 9(c) shall only be used in connection with an acquisition or specified capital investment,

   and that this authority shall expire at the conclusion of the Company's next Annual General Meeting following the date of the passing of the resolution, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if this power had not expired.

   This power applies in relation to a sale of treasury shares as if all references in this resolution to an allotment included any such sale and in the first paragraph of the resolution the words 'pursuant to the authority conferred by resolution 8' were omitted in relation to such sale.

   In this resolution, '**Rights Issue**' means an offer of equity securities open for acceptance for a period fixed by the Directors to holders of ordinary shares in the capital of the Company on the register on a record date fixed by the Directors in proportion as nearly as may be to the respective numbers of ordinary shares held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any treasury shares, fractional entitlements or legal or practical issues arising under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory or any other matter.

10. THAT the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares on such terms as the Directors think fit, and where such shares are held as treasury shares, the Company may use them for the purposes set out in section 727 of the Act, including for the purpose of its employee share schemes, provided that:

    (a) the maximum number of ordinary shares hereby authorised to be purchased is 8,458,320;
    (b) the minimum price, exclusive of any expenses, which may be paid for an ordinary share is 1 pence;
    (c) the maximum price, exclusive of any expenses, which may be paid for each ordinary share is an amount equal to the higher of:
        ii. (105%, of the average of the middle market quotations for an ordinary share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; and
        iii. the amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange trading service SETS; and
    (d) the authority hereby conferred shall, unless previously revoked or varied, expire at the conclusion of the Company's next Annual General Meeting following the date of the passing of this resolution, or, if earlier, on the expiry of 18 months from the date of the passing of this resolution (except in relation to the purchase of ordinary shares, the contract for which was concluded before the expiry of this authority and which will or may be executed wholly or partly after such expiry).

By order of the Board

D Mulligan
Company Secretary
Dated: 11 August 2017
Registered office: 3rd Floor, The Gateway, Innovation Way, Discovery Park, Sandwich, Kent, CT13 9FF
Registered in England and Wales with number 01547390

NOTES (UNAUDITED)

1. Only holders of ordinary shares, or their duly appointed representatives, are entitled to attend, vote and speak at the AGM. A member so entitled may appoint (a) proxy/(ies), who need not be (a) member(s), to attend, speak and vote on his/her behalf. A member may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him/her. A form of proxy is enclosed with this Notice and instructions for its completion are set out on the form.

2. Proxies may only be appointed by completing and returning the form of proxy enclosed with this Notice to the Company's Registrars, Capita Asset Services PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

3. To be valid a proxy appointment and any power of attorney or other authority, if any, under which it is signed or a duly certified copy of such power of attorney must reach the office of the Company's Registrars not less than 48 hours (excluding any part of a day which is not a working day) before the time fixed for the AGM or any adjournment thereof. Therefore, the form of proxy must be received by the Company's Registrars by 11.00 a.m. on 4 September 2017.

4. Return of the form of proxy will not preclude a member from attending the AGM and voting in person. A vote withheld option is provided on the form of proxy to enable you to instruct your proxy to abstain on any particular resolution. However, it should be noted that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of votes 'For' and 'Against' a resolution. If you select 'Discretionary' or fail to select any of the options, your proxy can vote as he or she chooses or can decide not to vote. Your proxy can also do this on any other resolution that is put to the AGM. A shareholder must inform the Company's registrars in writing of any termination of the authority of a proxy.

5. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders on the register of members of the Company as at close of business on 4 September 2017 (or, if the AGM is adjourned, shareholders on the register of members not later than 48 hours (excluding any part of a day which is not a working day) before the time fixed for the adjourned meeting) are entitled to attend and/or vote at the AGM (or any adjournment thereof) in respect of the number of shares registered in their name at that time. Subsequent changes to the register of securities shall be disregarded in determining the rights of any person to attend and vote at the AGM (or any adjournment thereof).

6. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

7. In order to facilitate voting by corporate representatives at the AGM, arrangements will be put in place at the meeting so that (i) if a corporate member has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that member at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate member attends the meeting but the corporate member has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate members are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – http://www.icsa.org.uk/ for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

8. You may not use any electronic address provided in this Notice or in any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

Shareholders’ Information Service

Hornby welcomes contact with its shareholders.

If you have questions or enquiries about the Group or its products, please contact:

D Mulligan
Group Finance Director
Hornby PLC
3rd Floor, The Gateway
Innovation Way
Discovery Park
Sandwich
Kent CT13 9FF
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